

the economics of
competitive coexistence

AFGHANISTAN

Between East and West

by

Peter G. Franck

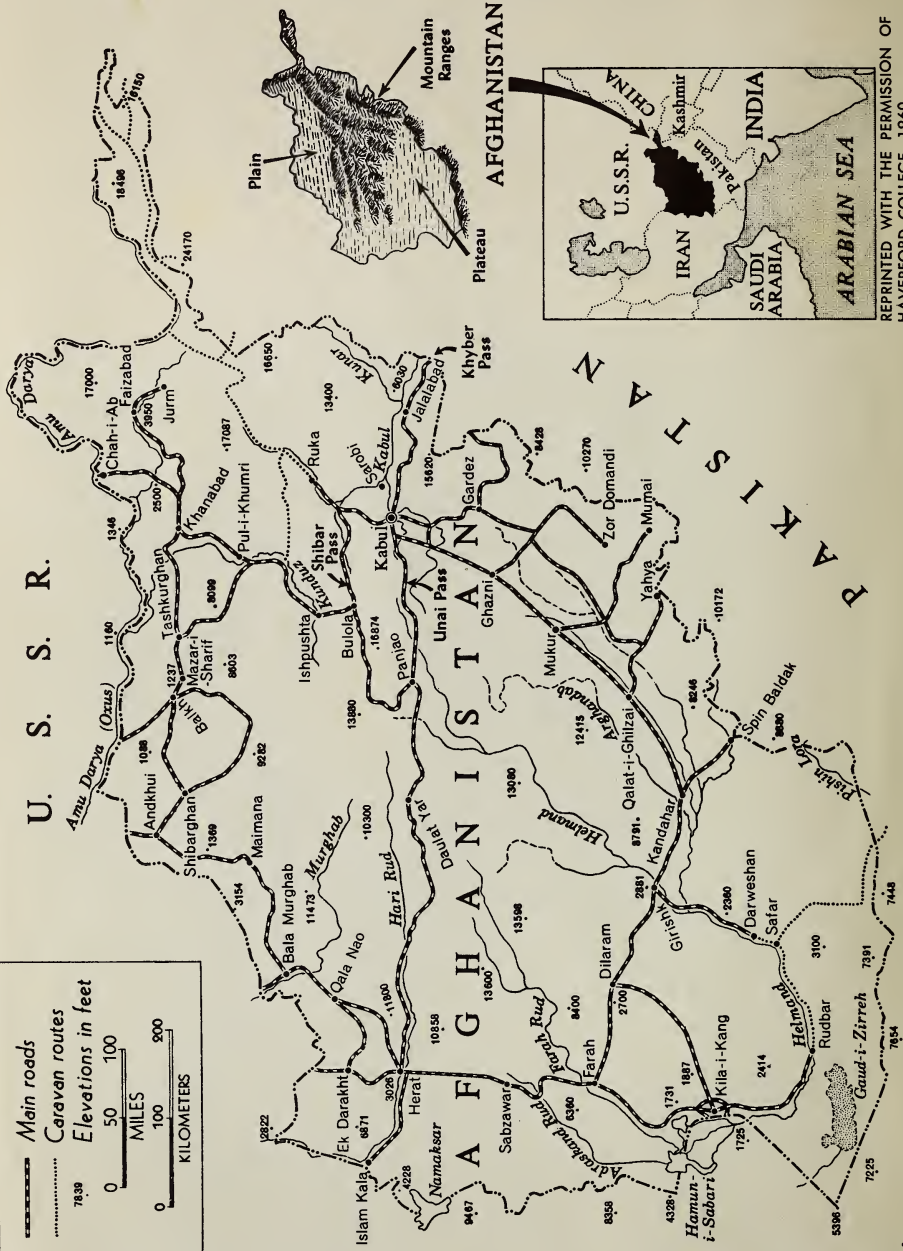
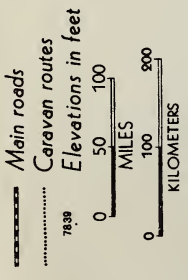
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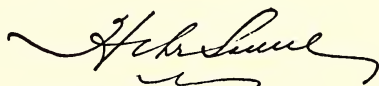
BACKGROUND

Ever since the Soviet Bloc began its trade-and-aid drive in the uncommitted countries of Asia and the Middle East under the slogan of "competitive co-existence", Western statesmen and economists have been pondering its implications. What use is being made of the economic instrument in Soviet and in Western policy? What is the impact in the less developed areas and the effect on world trade and production?

The study of "The Economics of Competitive Coexistence" was proposed by the NPA International Committee and set up in 1956 as a separate project to investigate these questions and a host of related problems. As an aid to its forthcoming general volume of analysis the project has had prepared a number of country and area studies of which the present one on Afghanistan is the sixth to reach the public. It is the second study concerning a less developed country, one that is uniquely exposed to Soviet influence, geographically and politically. In fact, Afghanistan is quite literally "between East and West", being flanked by Iran and Pakistan, both military allies of the United States, but bordered in the north by the Soviet Union. To analyze the course of aid and trade competition in these peculiarly trying circumstances was particularly relevant for a study of competitive coexistence.

The Rockefeller Foundation in 1956 and 1957 made two grants to finance the NPA Project on the Economics of Competitive Coexistence. The Foundation is not, however, to be understood as approving by virtue of its grants any of the views expressed in research studies growing out of the project.

NPA is grateful for the Rockefeller Foundation's financial support and is deeply indebted to all who are contributing to this project: to the Chairman and the members of the Special Project Committee on the Economics of Competitive Coexistence; to the project's research staff; and especially to Mr. Peter Franck, author of the present study on *Afghanistan Between East and West*.



H. CHRISTIAN SONNE
Chairman, NPA Board of Trustees

STATEMENT

by the

NPA Special Project Committee on The Economics of Competitive Coexistence on AFGHANISTAN BETWEEN EAST AND WEST

An earlier study of the NPA Project on the Economics of Competitive Coexistence analyzed the economic aspirations of India and the attempt of the Communist Bloc and the West to accommodate themselves to India's needs for financial and technical assistance. India is a vast country and neither of the contesting sides can seriously hope to acquire political influence chiefly by the magnitude of its aid and trade. The present study on Afghanistan deals with a much more vulnerable economy: vitally dependent on trade, landlocked, and at the mercy of the transit rights accorded by adjoining countries, as well as politically exposed to a powerful neighbor across a virtually indefensible border. When the Soviet Union began to grant aid to Afghanistan on a huge scale, it seemed as though an attempt was being made to swamp a small country economically.

Yet Afghanistan is accustomed to living dangerously between large powers, and a fierce pride and determination have helped preserve its independence through many trials. To be both wary and neutral has become second nature and this attitude has remained fundamentally unchanged throughout the period of rapprochement with the USSR that gives so much concern to the West. The Russians have studied well the psychological climate in which they operate. Subversion is not their present approach in Afghanistan and it is doubtful whether it could succeed in the face of Afghan internal security measures. On the contrary, the Soviets are working closely with the feudal regime and evidently plan to make their mark by a show of identification with Afghanistan's political aspirations and economic needs.

Western military support to Iran and Pakistan, the West's allies and Afghanistan's neighbors, has aroused the Afghans' suspicions and fears. Resentment was added when Afghanistan was rebuffed by Pakistan over its demands for incorporation of the Pakhtun tribes across the mountains. When, in the ensuing quarrel, Pakistan closed the border, Afghanistan's economic lifeline was endangered and the United States was under a cloud for not intervening on Afghanistan's side. The Russians were pleased to give political support and provide an alternative channel for transit traffic and economic needs. The greater magnitude of Western aid to Afghanistan's neighbors never ceased to rankle. With all these political factors weighing on the minds of Afghan policy makers, the Russians appeared to be the more useful and more cooperative friends-in-need. Nonetheless, anti-Western sentiments akin to those encountered elsewhere in the area did not arise. Relations with the West remained correct and Afghanistan officially holds firmly to its traditional neutrality and independence.

The impact of East-West aid competition in Afghanistan must be understood against this background. American aid antedates its Soviet counterpart. It arose from, and initially centered on, support for the huge Helmand Valley irrigation project that Afghanistan had undertaken with the help of an American contractor. All the difficulties inherent in such long-range enterprises under uncertain conditions in remote regions plagued this vast undertaking. When the Soviet Bloc began giving aid to Afghanistan, it was for highly visible projects with short pay-off periods. And a promise of \$100 million aid in 1955 was greater than anything offered by the West, before or after.

As Western aid thereafter became more consciously competitive, and also larger and more accommodating in its terms, the distinctions became less pronounced. But even though both sides are now involved in irrigation and transportation, American assistance is still more partial to long-range undertakings and quite unmatched in technical assistance of the fundamental sort, like education, in contrast to the project-oriented variety of the Russians; the Russians, however, are uncontested in aid to industry. But American effort to improve the rail and road links through Pakistan—physically and politically—and help this landlocked country with civil aviation, is evidence of growing competitive sophistication along with a sense of practical relevance.

It is, however, revealing that competition has not eliminated, perhaps has even promoted, a measure of complementarity between assistance from East and West. Similarly, in trade the West is holding on to the commerce in karakul, Afghanistan's largest earner of hard currency, while the Soviet Bloc buys more cotton and wool, which meet with difficulties in world trade. The Bloc also seems more adaptable in trading terms and transport facilities. Thus, the Bloc has been growing more important in Afghanistan's commerce; and as Soviet aid implementation increases, and as aid is repayable in local products, this trade is bound to rise further.

No clear lesson seems to emerge from these developments; but this fact is really a significant outcome. This small country, so vulnerable politically and economically, might well have been lost to the West under the cumulative push of political alienation and the pull of economic attractions lavished on it by the Soviet Bloc. After several years of such an unequal competition the West is still holding its own in Afghanistan. American aid has not been reduced, favorable results are beginning to appear, and by following their own sense of purpose the United States and other Western countries have done much better than expected against apparently hopeless odds.

There is no denying that Soviet flexibility has secured administrative influence and political appreciation which threats and truculence could not have secured from a proud and nationalistic people. Latent sentiments of anti-capitalism and of preference for governmental operations on all levels favor dealings in the Soviet manner over the West's diffuse operation through private enterprise. But the fact remains that there is little affinity with Soviet philosophy in other respects and the country's social and political organization is far removed from the conditions that proved helpful to Soviet aims elsewhere.

Short of acute conflict with Afghanistan's neighbors and barring general warfare, the West need not believe that the Soviet Bloc can only gain at the West's expense. On the contrary, under unpromising geographic, political, and economic auspices, a hard-headed persistence in a chosen purpose, supplemented by growing pragmatic flexibility, has demonstrated its worth under trying circumstances. Neutralism, resulting in a search for balance, helps the West rather than the Soviets, as long as the helping hand is not withdrawn and the field is not left clear to the other party. And if some complementarity, arising from diverging aid philosophies, were to emerge and promote more balanced development, that outcome would support the general long-term objectives of Western policy in Asia.

The NPA Special Project Committee on the Economics of Competitive Co-existence believes that the study *Afghanistan Between East and West* by Peter G. Franck is a valuable and timely contribution in a period of change and stress in that country. Without endorsing details for which the author, in collaboration with the Director of Research, assumes responsibility, and without subscribing necessarily to all interpretations and policy implications suggested by the study, the Committee recommends publication of this study to the NPA Board of Trustees.

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FOREWORD

The selection of Afghanistan for a case study of competitive coexistence was initially prompted by the apprehension in the Western world that attended the massive offer of aid by the USSR in 1955. Was it conceivable that such a small country could stand up under the pressure of such a powerful neighbor country if also made so dependent on its trade and aid? Some observers saw little hope under these circumstances. But, as has happened elsewhere, the "inevitable" has not come to pass.

This does not mean that the West's stake in Afghanistan is secure, but it shows that a counsel of apprehension is not necessarily a trustworthy guide to political forecasting in the age of competitive coexistence. One begins to discern a pattern, borne out by the course of events in Burma, Indonesia, Egypt, perhaps—at least during the crucial formative period—even in Iraq. Shrewd timing and flexible tactics tend to give the Communists an initial advantage that seems unsurmountable to fearful observers. But then the factors that seemed at first to favor the Bloc begin to operate the other way. Nationalism and the fear of dependence militate not only against the West, inertia tends to protect the status quo, and meanwhile the West may get another chance. If grasped, the course may be found not to be irreversible, and persistence may pay off. This is one lesson of Afghanistan.

An unfocused fear of Soviet methods rests, at least in part, on a lack of experience with the operation of competitive coexistence in practice. The study of Afghanistan provides a showcase because East and West have been working side by side in this small country for about five years, and nowhere can the results be appraised so neatly; in India—the other major case of coexistence in action—the comparison is diluted in the vast area, greater magnitude, and complexity of the Indian economy. The outcome of the comparison in Afghanistan is revealing. Technically and economically the difference is not as great as one would suspect, and with time and continued competition it tends to become even smaller. The actual impact arises not from the economic factors but from the political and psychological climate in which such factors operate. The West has been greatly handicapped in Afghanistan by what it regards as its global political responsibilities, while the Russians have shown themselves finely attuned to their opportunity. But the West has proved capable of adaptation, if haltingly and slowly. In this respect time is perhaps not on the side of the Communists after all, as long as the West is alert and persistent. That is the other lesson of Afghanistan.

It takes intimate knowledge and a fine sense of perception to describe the course of events and diagnose its meaning. The NPA Project on the Economics of Competitive Coexistence was indeed fortunate to enlist the background of experience and personal acquaintance with local conditions that Mr. Peter G. Franck brought to this task. Holder of a doctorate in law from the University of Basel, Switzerland and a Ph.D. in economics from the University of California, the author served from 1948 to 1951 as an economic adviser to

the government of Afghanistan. He has also been a U.S. government economist and has held teaching posts at several American universities. Presently, he is Professor of Economics at Robert College, Istanbul, Turkey, and an adviser to the Industrial Development Bank of Turkey. He has written widely on international economic problems, and as background for the present study undertook a field trip to Afghanistan.

The project staff and author are indebted to Dr. Gerhard Colm, NPA Chief Economist, for his untiring assistance, and to David Bolen, Edwin J. Cohn, James Cooley, John W. Gunter, Karl O. Kohler, Edward R. Pierce, Leon B. Poullada, Ralph G. Wadsworth, William Welk, and Donald N. Wilber for their extensive comments and criticism of an earlier version of the manuscript. This acknowledgment, however, is not intended to imply any responsibility of these persons for opinions expressed by the author of this study.

With few exceptions, only data and information available to the author after August 31, 1959, could be considered in this study. In a field where precise information is often long delayed and data are hard to come by at any time, a note of caution in this respect is in order.

HENRY G. AUBREY, Director of Research
The Economics of Competitive Coexistence

AUTHOR'S NOTE

The preparation of this study provided not only a unique professional challenge but also an opportunity to meet some of the finest people I have met anywhere in the world.

While working for the Afghan government in 1948-50, I had already become acquainted with the intelligence, sensitivity, and warmth of many Afghan officials and businessmen. Two months spent in the country in the summer of 1957 and continued contacts since then have led to the development of friendships with many Afghans—friendships which I hope will continue for many years.

My sincere appreciation goes to many for the generous time and cooperation given to me in the preliminary stages of the study. I am especially grateful to the Minister and Deputy Minister of Finance; the Deputy Minister of Planning; the Governors of Herat and Baghlan; the presidents of the Afghan Textile Company, General Electric Company, and Baghlan Sugar Company; the plant managers at the Kabul flour mill, the Pulikhumri and Gulbahar textile mills, and the Sarobie power station; the deputy directors of the Helmand Valley Authority, and of the Press Department; and finally, to many American, German, Czechoslovakian, and Russian engineers, all of whom gave as much time as I desired.

During the writing of the study, the Director of Research for the Project on the Economics of Competitive Coexistence and, through him, the members of the Special Project Committee have given me generous and effective advice. Yet they have left me free to reach my own conclusions. I am grateful to the Director for the generous editorial assistance which has kept this study brief and in intelligible language.

—P. F.

INTRODUCTION

The years since World War II have witnessed the extension of Communist domination over nations bordering on the Soviet Union and China from the Baltic to the Black Sea in the west and from Korea to Tibet in the east. Beyond the border region Communist elements have found their way into government policy in Iraq. However, in the north and along the southern and southwestern periphery lie four still-independent countries: Finland, whose government is intermittently dependent on Soviet goodwill; Turkey, unwaveringly anti-Russian though hesitatingly compelled to increase its trade with the Soviet Bloc; Iran, allied with the West by treaties and military and economic assistance thus far not matched by Soviet aid offers; and Afghanistan, once a buffer between Russia and British India, but since 1954 attempting to steer an uneasy course of political and economic neutrality between East and West.

Trade with both the Free World and Soviet Russia has for years been an important source of income for the Afghan people. Further, through trade Afghanistan has in the past obtained capital goods and technical advice which have helped her spasmodically to bring more of her resources into use. When at the close of World War II the country was endeavoring to accelerate the increase of its productive capacity, it solicited and received various kinds of economic aid from the West. Moreover, its trade with the United States, negligible before the war, increased rapidly in both directions. The significance of the growing aid and trade links with the United States was dramatized for the world in 1955 when a Soviet \$100 million credit offer crowned the growing Russian-Afghan economic intercourse. This was more than twice as much as all U.S. aid rendered up to that time.

Wherein lies the significance for the United States of this aid accepted by Afghanistan? The geographical and economic facts seem to deny Afghanistan's military-strategic value for this country. On a landlocked plateau of the size of Texas, and nearly 500 miles away from the nearest warm-water port, live some 10-12 million people of varied ancestry with an estimated annual per capita income of \$50, and over 90 percent of them illiterate. Transportation facilities within the country and international communication links are either tenuous, costly, or both.

The most important exports are agricultural products whose value is high in relation to their weight, such as karakul skins (Persian lamb), fruits, cotton, and wool. Most of the people are engaged in arduous sedentary farming on arid soils and nearly one fourth of the population are nomads and seasonal unskilled farm laborers. Shopkeepers, traders, artisans, factory workers, and government employees account for about 10 percent. In the last 25 years there has emerged a small but growing urban class of merchants, entrepreneurs, and administrators, some enriched by their shares in newly established semi-monopolistic corporations, some by inherited land holdings.

During the pre-World War II years Afghanistan was able to extend the area of market-oriented agriculture through irrigation investments and to build up a small modern light industry, especially in textiles. In postwar years there

have been added hydroelectric power stations, a large integrated cotton mill, a cement plant, and a large flour mill. Two large dams now harness two of the major rivers. The principal cottage industries produce rugs, bricks, and ceramics. Costly transportation and unfavorable location have thus far hindered the exploitation of minerals. Two coal mines barely manage to meet the industrial and heating fuel requirements.

Because of the hydroelectric potential, coal reserves, and a natural protection against imports, further industrial expansion based on agricultural raw materials is high on the government's priority list of development projects. But the country lacks capital, entrepreneurial skills, and markets. The opportunities for extending irrigation agriculture and raising agricultural productivity are considered equally, if not more, favorable than development of fuel resources. Since 1949 the country's development efforts have been pushing in both directions, although with intermittent intensity. Notable successes were also achieved in road construction and in the expansion of educational facilities.

To maintain a sustained development effort domestic resources—especially high-talent manpower and capital—must be imported. The exchange reserves, accumulated during and after the last war, were soon liquidated. Therefore, capital and technical aid from outside was both necessary and welcome. In 1948 an American company initiated large-scale road, canal, and dam construction work, along with technical aid, which it rendered for the Afghan government account on a strictly commercial basis. In 1949 this was followed by substantial U.S. government financial aid, designed primarily to complete the projects started by the contractor. However, even with the addition of technical assistance from the International Cooperation Administration (ICA) in the early fifties, the U.S. efforts were not politically angled until the Soviet Bloc offered assistance to industrialization and other projects from 1954 onward. At this juncture, U.S. policy makers appear to have recognized the political significance of an effective U.S. aid program as a barrier or a countervailing force against growing Russian influence, prestige, and potential domination. Thereafter, as both powers oriented their aid politically, Afghanistan could expect to receive more aid from two competing sources than from one. To some degree this expectation has materialized.

As Soviet influence grew in the Middle East and India, it was definitely in the interests of the United States to operate so as to preserve Afghan independence and to deflect Afghan policies from directions favorable to the Soviet interests. Now that East and West are locked in a competition involving their respective types of economic assistance, several important problems have emerged.

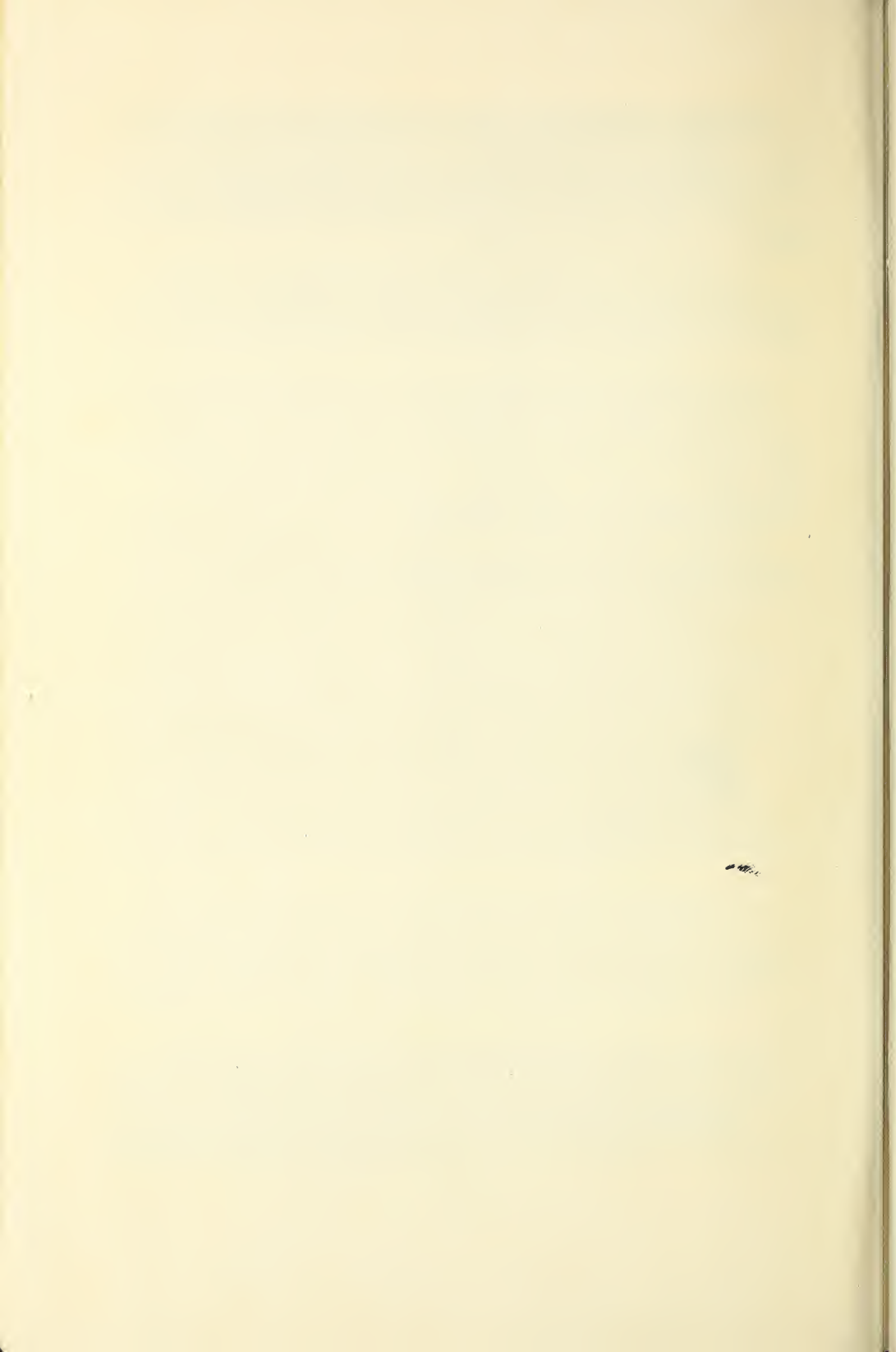
First, from the point of view of the aid-giving country, what are the forms in which economic competition occurs? More important, which supplier of aid seems to be winning out, as measured not only by its contribution to economic development, but also by its appeal to the ruling group and its popularity among the masses? Is there possibly room for a complementary, rather than competitive, coexistence of aid programs?

Second, since trade and aid are also used as instruments for attaining political objectives, do the closer economic relations between the Soviet Bloc and Afghanistan, including the exchange of personnel, constitute a threat to Afghanistan's ability to manage its affairs without interference? What political and social forces converging on Afghan policy makers favor a pro-Soviet trend? Are there enough countervailing forces to preserve what Afghans call their traditional neutrality?

Third, from the point of view of the West, what economic means can the United States use to strengthen the West's economic and political position and more effectively meet the Soviet challenge than has been the case thus far?

This study cannot predict the outcome of the divergent factors playing on these issues. There are too many intangibles whose real force is hard to measure. Moreover, whatever statistics are available are not always reliable or consistent. Thus the conclusions drawn from them do not carry too high a degree of certainty. Nevertheless, the general order of magnitude of the quantities and values reflected in the data was found to be acceptable. At any rate, Afghan policy makers accept them.

For these reasons we do not hesitate to indicate the general direction in which the answers to the above questions may be sought.



AFGHANISTAN BETWEEN EAST AND WEST

by

PETER G. FRANCK

CHAPTER I

THE POLITICAL ENVIRONMENT OF INTERNATIONAL ECONOMIC RELATIONS

Ever since Afghanistan was freed from British tutelage, the conduct of foreign affairs has put the Afghan government's executive power to a severe test. Its ability to carry out policies without incurring more internal ill will or active resistance than its police, army, or communications control can handle depends on three factors. These are the strength of the country's unifying elements, the strength of those divisive forces operating against the government's hold over the people, and the quality as well as durability of executive control which the constitution and present leadership provide. The possible impact of and support for new alignments in foreign policy depend on the interplay of these elements.

DOMESTIC STRUCTURE

CONSTITUTIONAL POWER CENTER

Afghanistan may be called an autocratic monarchy or an absolute oligarchy. The written constitution is liberal in its provisions, but it is neglected in practice. The King appoints the Prime Minister, who appoints his Cabinet members. Although there is nominal parliamentary control, any minister backed by the Prime Minister can act regardless of legislative opposition. The focus of power remains with the King and his Prime Minister. This has worked out to mean government principally by relatives of the King, acting chiefly through the Cabinet.

The respect for established authority is inherent in family and tribal tradition and is characteristic of all settled Afghan communities. The government maintains centralized authority, among other things through strict control of communications. Several daily newspapers under government control serve 12,000 to 15,000 readers, two thirds of them in the capital. The government-owned and -operated radio station broadcasts to the people through 8,000 radio sets, 60 percent of them in the capital. The constitution allows entry of foreign newspapers "which do not contain matter against religion and the policy of the Afghan Government," a proviso used to prevent circulation

NOTE: The footnotes for this chapter will be found on page 15.

of Communist material or Western publications critical of Afghan government policy or that of friendly neighbors.

Religion is an important factor bolstering the King's authority. In line with the basic tenets of Islam there is no separation of church and state; the King (*shah*) is the head of the state and the church.¹ The laws of the state are Islamic laws. Islam, mostly of the Sunni school, is represented not only in local religious leadership but also through a council of wise men which offers advice to the ruler. Yet this element of strength may become the focus of opposition (as King Amanullah learned in the twenties) if the government strays too far from the conservative path laid down by the *mullahs* (the village religious leaders). At the same time, the religious authorities control the judiciary branch and wield an influence as effective as the political hierarchy.

GEOGRAPHICAL STRUCTURE

In contrast to the generally unifying religious and constitutional factors, the social-geographic factors tend to be divisive. Nature itself has made integration of the Afghan nation difficult. The central mountains and large stretches of desert separate the country into distinct regions, keeping it an economic archipelago in which the islands of activity are connected by tenuous transportation links, many of which collapse in bad weather. Thus the regional communities, whose size and economic well-being are almost entirely determined by local natural conditions, have remained relatively independent of each other, developing local political loyalties and cultural differentiations.

In the context of this study the most important regional divisions are those which lie closest to the Soviet Union and those close to the two communication links with Pakistan. The former is the area north of the Hindu Kush mountains, irrigated by a number of perennial rivers and fertile wherever there is water. New irrigation structures are reviving economic life, long held back by the consequence of destructive invasions. It is an irony of history that the most promising investments in recent times—that is, in irrigation agriculture in the 1930's (cotton and sugar beets) and in the textile industry in the 1940's—so far have materialized in this northern region, only a river's width from the Soviet Union. Modern industrial centers have grown up there primarily because of the proximity of raw materials, fuel, and power and the availability of moderately skilled and industrious laborers.

The region's links to the capital city of Kabul consist of two telephone wires strung on precarious poles, a narrow road leading over tortuous passes and through mile-deep gorges, and a newly inaugurated semi-weekly air schedule. Transport is expensive, unreliable, and time-consuming. The links of the north with the west are even more tenuous. The opening of transit outlets across Russia and the intensification of trade with Russia itself have made the easing of this communications barrier a primary objective of the government. The government keeps trucks moving at high cost all year. Along this road can be seen the new Russian road-building equipment and Russian engineers at work supported by large Afghan labor battalions. Airports in the

north are no more than levelled loess plateaus, but the business community and government bureaus increasingly depend on them. Judging by recent accomplishments, the handicap of the geographical location of the north will be slight. Division of labor gains will increase substantially once the high natural "tariff" of transportation cost is reduced to a physical minimum.

The other regions have equally tenuous links with the capital except for the stretches of road in the Helmand Valley rebuilt by Morrison-Knudsen Afghanistan Inc. (hereafter referred to as M-K), American contractors in Afghanistan since 1946. In the case of this south-central region, the government was caught by its commitments to the tribes there since the royal family is linked to them by kinship and political debts. Moreover, a long tradition of irrigated agriculture and trade links with nearby India (now Pakistan) and the intermittent political autonomy of the Kandahar province have given it more political weight than other provinces. Development projects in that area have brought the province much closer to the capital. The danger of the capital losing control over the Kandahar province is slight. Elsewhere, the issue of allegiance to the center is more a matter of tribal relations than geographic location. But the improvement of the transportation system and the rapid strengthening of the government by Soviet-built mobile army units have mitigated the divisive influence of geography.

SOCIAL STRUCTURE

The divisiveness of the tribal pattern is superimposed upon the divisiveness of the geographical pattern. In the east, south, and southwest live the Pushtu-speaking Pathan tribes (more than half of the total population), which provide the King's chief support. Development of the Helmand Valley is helping members of these tribes. In the north and center tribes predominate which are racially and linguistically closer to the tribes in Soviet Turkmenistan and northern Iran than to the Pathans. These tribes are noted for their industrious agricultural activity, but they did not receive political favors from the central government equivalent to those received by the Pathans.

Continued loyalty to tribal customs, especially among nomads, as well as existence of an inter-tribal assembly (the *loe jirga*) have somewhat checked the trend toward a weakening of local territorial loyalties and a strengthening of the national government. However, the degree of economic and political dependence of local administration on the center has been growing. Even in the remotest parts local officials constitute merely the lowest layer in the hierarchy through which control from the center is exerted.

Theoretically Islamic Afghanistan has no class system but, in practice, a privileged social and political elite, which associates itself with the religious authorities, dominates the economic life. The rest of the population is divided among very small farmers and some sharecroppers, members of the nomadic tribes, artisans, and casual laborers. Relationships among the social groups are not channelled through western-type political processes or any oriental substitute for them. Generations of hereditary landlords have estab-

lished quasi-feudal relationships with tenant-farmers or tribesmen. There is no organized labor or peasant movement, or even organized representation of the various groups in relation to the elite. Many of the lower classes still seem to accept their fate as dictated by Allah. However, among the urban middle classes and the business community there has developed a limited occupational group-consciousness, which not so long ago flared up in some bazaar-keepers' strikes against an arbitrary tax. There has been cross-fertilization of ideas between intellectuals, especially professors and government officials, on the one hand and the business community on the other, drawn together by common concern over some measures of government policy.

ECONOMIC ELEMENTS

The few economic factors affecting political stability center upon occupation and ownership patterns. About 90 percent of the people live by cultivation, herding, hunting, or herb-gathering. This occupational homogeneity nevertheless contains elements of instability. First, many nomads (about one fifth of the total population) move across provincial and international boundaries, subject to the shifting opportunities for earning a living. Some of the trading function, which integrated them into the social fabric of the sedentary population, has been replaced by truck traffic or blocked by border conflicts with Pakistan. Afghanistan has to obtain transit rights across Pakistan for marketing substantial amounts of exportable fruit crops and karakul Persian lamb surpluses, in exchange for imports of vital capital and consumer goods. Border crises and closings—the last in 1955—can vitally jeopardize the country's fragile money economy.

The wide variety of land-ownership patterns, ranging from community property to simple peasant proprietorship to feudal landlordism and unused state land, does not provide a healthy economic and social pattern. True, the small proprietor, occupancy tenants, and hired laborers (who may also be small landowners) outnumber the large landowner. But economic and political power is not diffused. The *khan* controls water, the better lands, market outlets, and the money supply. Legislative, executive, and other government controls are in the hands of the landlord and the landed crown interests so that clashes of interest are bound to occur. No organized opposition channels exist, but expressions of discontent are heard.

AFGHANISTAN'S PRESENT POLICY FRAMERS

The question "who sets policy?" is much easier to answer in the case of an oligarchic autocracy like Afghanistan than in the case of a democracy like the United States. Whether that policy concerns the allocation of funds for economic development projects, or the borrowing of funds abroad, the policy is set by the King and his family. The major voices were once those of his uncles, now they are those of his cousins.

The ability of the central government to execute policy depends, however, not only on its own strong and all-pervasive controls but also on the tacit

approval, or lack of disapproval, by the citizens of its aims and its methods of achieving those aims. There is little disagreement as to the immediate aim—economic development for the greater welfare of all Afghans. But the method is another matter. What voices are there which, in a critical moment, might be raised in opposition?

The liberal movement has expressed itself in the advancement of individual personalities, mostly related to the King's family, or to the emerging group of financial and industrial interests. These sons of wealthy families and foreign-service officials educated abroad share many of the liberal ideas they picked up there. During the early fifties, some of them published independent newspapers criticizing government policies and urging the government on to faster modernization of the social and economic structure and the elimination of corruption. Several of these younger men are now serving in the government administration; some were elected to the 1949 Assembly which called Cabinet ministers to account in economic matters. The prime example was a critical review in 1950 of the Afghan experience with M-K.

Some government officials and even members of the royal family at one time sponsored a national political party and the government permitted the establishment of a Kabul University student union. Even the financial and industrial group allied itself informally with the liberal intellectuals. But when their combined influence grew too powerful, the government clamped down in 1951. The 1953 change in prime ministers brought forth a more restrictive regime. Yet, while the political processes by which power was exercised were not touched, the government's revamped social and economic program contained some of the ideas expressed by opposition members, whose services were actually utilized in responsible places. For this reason, and also because of the subsequent streamlining of the government machinery, by 1957 an identity of interests between the liberals and the government had emerged. Because of its critical attitude towards Western capitalist methods and foreign aid programs, the philosophy of this group could be significant in the foreign policy alignment. There is little evidence supporting the Kabul allegation that members of this group are sympathetic to Communistic programs. Their common characteristic is a demand for a constitutional monarchy with free elections, free speech, and free political parties. They are keenly concerned about the waste of economic resources because of the absence of competent personnel.

Economically significant has been the opposition, sometimes open, sometimes clandestine, of a small group of merchants, industrialists, and financiers. They rallied around the founder of the first private commercial bank (Bank-e-Millie) who also introduced joint stock companies, the first modern textile factory, sugar refineries, and electric power stations. The group's unheard-of rate of capital accumulation enjoyed the protection of government-certified monopoly charters. Royal family capital joined in some of the ventures. While some of the banking functions were later delegated to the Central Bank, the private finance group grew until it had attracted most of the available skilled technical personnel and it eventually dominated important export outlets. It became virtually impossible for the government to carry on its own economic program without the cooperation of this conservative group.

By 1950 the group's aspirations for political power began to be viewed as a threat to the royal family's hold. In September 1953 in moves designed to curb the finance group's hold on the economy, its share in leading companies (cement, cotton) was drastically reduced by government capital subscription; competing commercial and industrial finance institutions were set up to curb the power of Bank-e-Millie. The exclusive karakul sales agency operating in New York was undermined by a new government agency. The raw material and finished product prices of the large Textile Company became subject to tight government control. The business community at large was encouraged to cultivate the new state organizations. Although all this was inspired by a finance minister who was later dismissed, there was little chance that the government would revoke the policy.

The hands of the government were considerably strengthened by the growing role of the military which have directly benefited from the large supply of Soviet arms. It thus can more easily afford to harbor within its ranks members of both opposition groups.

NATIONAL PLANS AND ASPIRATIONS

In the crossfire of tribal loyalties and disaffections, social tensions and political factions, the drive to achieve certain aspirations—particularly in resource development—has provided a unifying force and changed the course of Afghan foreign policy.

Many factors account for Afghanistan's backwardness: century-long isolation from Western technical advances; the shifting of trade and transportation lines after the rounding of the Cape of Good Hope; Afghanistan's sterile role as a buffer state between Russia and British India; costly wars and internal strife—the price of independence and stability; and perhaps the progress-damping tutelage under the British from 1878 to 1918.

There were faltering attempts at economic development in the interwar period. However, it was the experience of World War II, the adverse turn in the terms of trade, severe inflation, and the interruption of consumer goods imports which stimulated an intensified economic development effort in which business groups and the government joined hands. The government's recognition of the need for major economic and social development projects grew not only out of the widening gap between international obligations and income, but also out of the aspirations of millions of underemployed, impoverished people. The ruling elite's economic philosophy appears to center on improved agricultural productivity; some industrial development, particularly for import-substitutes such as textiles, cement, fuel, and chinaware; modern Western technical education; and extensive foreign aid without, however, compromising Afghan policies for nonalignment.

As a political objective the government looks toward a strong and prosperous Afghanistan which stands on its own feet, and whose national aspirations must be recognized by all nations. Unafraid of any foreign power, associated

in friendly alliance with all who share their objectives, the leaders are bent on keeping the country neutral amid the big power blocs. They are not unwilling to play one bloc against the other if Afghanistan can benefit from the rivalry and if Afghan affairs are not interfered with by either power. To this end, they practice and preach technical and economic cooperation with any government that sincerely wants to help. A new commercial code and foreign investment law have even paved the way for Western private investors.

In its political dispute with Pakistan for the incorporation into Afghanistan of the Pathan tribes across the border (the issue of "Pakhtunistan") the government pursues a policy of national unity and racial nationalism without which officials sincerely believe a nation with the tribal diversity of Afghanistan cannot exist. Nevertheless, having only limited military power, the government depends on negotiation rather than force—although threats of force were often made during the height of the Pakhtunistan trouble.

Internally the country's leaders aim at greater national integration through the furthering of secular education, improved communications and transportation, nationwide application of the principles of "economic dirigee" rather than those of "economic liberalism" (the one operating from the center under government supervision, the other focusing on local enterprise and capital). In the final instance the leaders are looking forward to a more representative government—but not necessarily a parliamentary democracy. Few of these aspirations are expected to materialize within a few years. The leaders, perhaps under the predominant influence of the more conservative groups, believe that the Afghan people are politically still too inarticulate and that a too rapid evolution (for example, of representative political bodies or women's rights) would antagonize the reactionaries and open the door to demagogues. Therefore only small steps are taken.

In no other documents are the leaders' aspirations more eloquently stated than in the five-year plans the government has presented during the last decade. Each emphasizes different sectors of the economy; all require resources far in excess of what the country can squeeze out of its low income (about \$50 per capita, if not more than it can absorb).

The latest plan (September 1956) called for a five-year investment, almost equivalent to the total gross national product estimated for 1953/54. The largest share was to be devoted to roads, airports, and riverports on the Oxus River on the Soviet border in the north, as well as telegraphic and radio communications—a shift in emphasis relative to earlier plans. A significant increase in irrigated areas was projected, to be supported by a vigorous drive against animal and plant diseases. The industrial investment of 1955 was to be doubled. Ambitious increases in schools, hospitals, and rural centers were envisaged requiring additional thousands of teachers and technicians. At the end of the investment program, yearly national income was expected to increase nearly one fifth over the 1954 level. Afghanistan's position on the chessboard of international relations would determine from whom to ask the needed foreign support of \$167 million and what terms to accept.

THE CONDUCT OF FOREIGN RELATIONS

At the end of British rule over Afghanistan in 1919, the government made determined efforts to become a full-fledged member of the West's family of nations. It joined the League of Nations, later the United Nations, and eventually all the specialized agencies. Thus Afghanistan hoped to be more than the pawn or victim of the large powers. The subsequent concurrent interest of the United States and the Soviet Union in the country's destiny severely tested that hope.

In addition to treaties of friendship, Afghanistan in the twenties started a number of commercial agreements with European countries. German business interests helped build up a market for karakul, wool, and cotton, while Germany sold electrical equipment, built bridges and roads, power plants and textile factories, and opened a Lufthansa air link to Kabul. Consular relations with the United States were established in 1935, and a legation was established in 1942. Commercial relations with the United States did not become significant until after World War II when the market for karakul shifted from Europe to the United States and the United States became Afghanistan's major source of machinery and equipment. The most dramatic turn came in 1946 when the Minister of Education proposed to reorganize the educational system along American lines declaring that:

America is undoubtedly the leading nation in the practical knowledge of science, commerce, finance, mechanics, engineering, agriculture and other technical subjects. We need the knowledge to improve the living standards of our people. The best way we can obtain it is from the nation which developed it, and in the language in which it was written. (*Associated Press, August 4, 1946*)

For nearly six years the intensification of the economic relations with the United States which followed that declaration did not provoke any counter-vailing moves on the part of the Soviet Union. But with the heightening of the cold war, Russia's concern over powerless, underdeveloped Afghanistan—just then receiving its first U.S. technical aid—grew measurably and revived the memory of earlier Russian moves.

AFGHAN-SOVIET RELATIONS

After World War I, Afghanistan established relations with the new Soviet Union in a spirit of common hostility to the British Empire. But the honeymoon was brief. The Soviets failed to make promised territorial adjustments, never provided a promised subsidy and, in fact, made small inroads into Afghan territorial independence. Nonetheless, despite these incidents and despite his cooperation with the West, King Amanullah (1919-28) retained the favor of the Soviet government. As has so often been the case in the history of its relations with Afghanistan, Russia's interest in the country varied in direct proportion to the intensity of Afghan contacts with a Western power.

Beginning with the regime of Nadir Shah (1929), a strong and stable government ruled Afghanistan. No more direct outside intervention marred the fairly continuous trading activities until the mid-fifties. Despite the 1,000 miles of common frontier, the countries treated each other with indifference. It seemed as if, with the British line of demarcation of interest withdrawn from India, Soviet active interest in Afghan affairs also abated. Afghanistan's status as a neutral nation was secure, so it appeared, as long as neither Russia nor any other major power took more than a trader's interest in Kabul affairs.

In the wake of Western involvement in Afghanistan through growing aid programs (to be discussed later), normalcy in Afghan-Russian relations did not prevail long. To the Soviet Union, economic commitments in Afghanistan and elsewhere had political overtones as well. Certainly, in Soviet eyes, the rebuilding in 1947 by an American contractor of a modern high-speed road from the Pakistan border to the second-most-important business center of its neighbor had strategic importance.

The relation between Afghanistan's heavy leaning on the Western powers and the Soviet appetite for closer relations with Afghanistan was first put to test in the Soviet protest against permitting UN drilling crews to operate in the northern provinces along the Soviet border in 1952. Afghan hopes for strong political support from the United States on this issue proved vain, so that Soviet objections had to be heeded. The opportunity for more active Soviet intervention came with the political-military commitments entered into by the United States and Turkey jointly with Pakistan (spring 1954). Owing to the long-range effectiveness of modern weapons and airplanes, Soviet Russia considered these a threat to the security of the newly established, highly diversified industrial complex in Soviet Central Asia, centering around such cities as Tashkent, Samarkand, Fergana, Stalinabad and Leninabad. The new exposure of this area to the range of U.S.-supported military bases was undoubtedly a strong factor on the Soviet side in favor of more active relations with the "barrier state". Even before the eruption of new tensions between Pakistan and Afghanistan, Soviet concern over the Turkish-Pakistani Mutual Aid Agreement of April 2, 1954 reflected the Soviet government's realization that the growing linkage of the Southwest Asian countries with the West had a direct bearing on its security.²

As Soviet government interest grew, the Soviet press picked up its cue quickly, suggesting that Afghanistan should turn to its one "true friend" because of the hostility of its other neighbors and the Western powers. This new line did not discourage Soviet writers from analyzing economic problems of Afghanistan in orthodox Marxist fashion. The intrusion into Afghanistan of the foreign market, both as a supplier and as an outlet for domestic products, was branded as an unnecessary link with imperialism which makes whole branches of Afghan artisan industry defenseless before price fluctuations on the world market.

In contrast to this harping approach to the economic problems, the change in the Soviet attitude toward Islam, at least Islam outside the Soviet Union,

was marked. Throughout the period of 1918-38 there was in the Soviet Union a spate of anti-religious propaganda which attacked and ridiculed Islam. For decades writers and scholars had referred to the Koran as an "instrument of exploiters and town merchants in whose interests it was written". Soviet Russian studies of contemporary Islam tried to show that, whereas the October Revolution initiated a universal movement toward nationhood and freedom, Islam remained the tool of the Middle East's ruling classes and of colonial imperialism, and represented "the ideology of the feudal system born at the time of the territorial expansion of the Arab caliphs". In his last works Stalin had demanded that attention be paid to "unmasking the contemporary role of Islam as support for the exploiter classes and to disclosing the reactionary anti-popular essence [of Islam] used primarily by the American imperialist to enslave the people of the Middle East."³

But in the mid-fifties a change took place; Soviet leaders now are anxious to meet the formerly despised pashas, sheikhs, and kings as representative of the people they rule. This is evident in Kabul where Soviet Embassy dignitaries are seen at all parties and receptions, however "reactionary and corrupt" the host may be. Moreover, it is not a coincidence that the Soviet Embassy *News Bulletin* continually describes the rebuilding of mosques, the opening of schools for *mullahs*, etc., not in Afghanistan, but in Soviet Central Asia, and proudly refers to a decree of November 1954, warning Marxist zealots against giving offense to religious sensitivities. All this suggests to perceptive Afghans that the Soviet government has substituted flattery for subversion.

There is no open or clandestine Communist propaganda in Afghanistan. One cannot find many pro-Communist books or newspapers, and even the Soviet Embassy *News Bulletin* stays relatively clear of attempts at ideological persuasion. Instead, the economic and technical achievements in the Soviet Union and outside, especially in China, India, Egypt, and Syria, are emphasized. Naturally, the accomplishments of Soviet engineers and technicians in Afghanistan get first play. There is obviously a clear and firm understanding between the two governments that there must be no political proselytizing. Cultural exhibits, documentary movies, and records, all freely given by the Soviet government to the Afghan broadcasting network and movie houses, emphasize the nonpolitical aspect of life in the USSR. But there is a purpose behind all this; for example, the movie made at the time of the Afghan Prime Minister's Soviet visit cleverly showed the Afghan audiences the factories and farms the guest saw. Thus subtle propaganda about Soviet achievements is fed along with flattering pictures of Afghan dignitaries "in action". The interests of both the Soviet and the Afghan government are admirably served.

SOVIET-AFGHAN COLLABORATION

The economic agreements discussed in the following chapters were soon accompanied by elaborately planned visits by the heads of state. Regular air service at cut-rate fares was established between Kabul and Moscow. Arms

and ammunition deliveries, on long-term credit, were arranged for and Russian jet planes, piloted by Russian crews, started training at Mazar-i-Sharif in 1956.

The Afghan press, living on official handouts, began to report glowingly on these developments, including the official visits, but could not compete with the Soviet Embassy daily press bulletin which quoted at length from the visitors' speeches. The climax, perhaps, was the following quote from the welcoming speech of President Voroshilov who greeted King Zahir on July 17, 1957, thus:

... the Soviet Union has love and respect for Afghanistan, for the brave, proud and industrious Afghan people.... Your visit ... shows objectively how two neighbor countries with different social and political systems march forward hand in hand along the road of peace, friendship and mutual understanding. (From *News Bulletin*, Soviet Embassy, Afghanistan, No. 141, July 20, 1957.)

The Afghan government accepted this new friendship as evidence of a changed Soviet attitude towards the underdeveloped areas in general and towards Islam in particular. On the Afghan side, as the King announced on his return from Moscow on August 4, 1957, the neutralistic policy towards the Soviet Union was based on Afghanistan's age-old desire for "peace, universal tranquility, and progressive self-development".

THE PAKHTUNISTAN CRISIS

On the Afghan side, the strong factor making the government receptive to Soviet overtures was the Western handling of the conflict over the political status of Afghan tribes living beyond the Afghan border in Pakistan. Afghanistan found itself isolated from the family of Western nations on which it had firmly hoped to rely when it joined the multitude of international organizations. In the views of the government and a large number of enlightened Afghans, here was a clear case where the principle of self-determination for 5 to 7 million people was being disregarded at the highest international policy-making level. Not being able to marshal other support, despite determined efforts to do so, the government found solace and hoped-for help in closer relations with the second-best power center in the world. As Foreign Office officials in the summer of 1957 put it (and this view seemed to be widely shared):

... the Afghan government was obliged to use Russia after the United States showed itself unwilling to correct the situation. The United States not only did not press Pakistan into a more reasonable attitude but indirectly supported Pakistan by the military alliance and the subsequent delivery of military airplanes, including F-86 jets, and funds for the improvement of air bases. Moreover, the attempted economic strangulation by Pakistan undermined Afghanistan's position in the world. Without alignment with a big power it could not stand up to Pakistan or the United States. (Interview with the writer, July 1957.)

Western observers noted that an independent Pakhtunistan could not possibly be a viable nation and that Pakistan's government was doing as much for this province as for any other, possibly more. But Afghan officials seemed unable to reason rationally on this subject. Inflamed by U.S. military support of Pakistan, Afghanistan threatened to turn over U.S. aid projects to Soviet engineers, unless the United States successfully pressured Pakistan to meet Afghan wishes. The earlier U.S. "informal suggestions" for compromise were supplemented by U.S. pressure on Pakistan to permit transit of U.S. aid materials and equipment through Pakistan. By November 1955 transit traffic was flowing again. But the price for the West had been high. The Soviet Union had obtained the opportunity of supporting a "helpless underdeveloped country" and at the same time of accusing the West of alleged disregard of the principles of fair play.

In December 1955 Bulganin and Khrushchev were invited to Kabul and returned to the Soviet Union announcing support of Afghanistan's grievances but at the same time expressing a wish to maintain friendly relations with Pakistan. While there is no evidence of actual Soviet incitement, the issue enabled the Soviets to play one country against another. And if the transit compact with Pakistan of 1958 should fail to confer some sort of stability on the border area generally, the issue might be usefully employed to divert internal dissatisfaction from the domestic scene and rally all Afghans in a common cause against the "enemy", thus creating a further wedge for Soviet interests. Both the practical problems created by the transit impasse and the indignation over the isolation caused by Pakistan's alliance with the West could not fail to influence the Afghan foreign policy alignment.

U.S. SUPPORT OF PAKISTAN

The United States had favored the inclusion of Pakistan in a regional defense arrangement in order to strengthen the dangerous weakness in the military capabilities of that country. However, it was quite natural, and officially acknowledged in Washington, that any active military aid to Pakistan would be received with misgivings "by certain states in the area". Afghanistan's Ambassador warned in vain about the possible consequences of active military aid to Pakistan since it would implicitly but no less tangibly indicate U.S. support for Pakistan's rights in the border area. Afghan officials could only surmise that their country's geographical closeness to the orbit of Communist expansion, despite their well-known traditional anti-Communist policies in domestic affairs, made them ineligible as a military partner of the West.

These suspicions materialized in short order. In February 1954, President Eisenhower announced the decision to approve Pakistan's request for military assistance from the United States. In March 1954, a high-level U.S. survey team traveled in Pakistan and assessed the requirements of the Pakistan armed forces, to the tune of sharp protests from the USSR against the establishment of U.S. bases on Pakistan soil, foreshadowed by the presence of the mission.

The new notion of a regional defense system centering upon a "northern tier" of nations rapidly took hold outside of Afghanistan, and in 1955 culminated in the Baghdad Pact as the basic instrument of implementation. Before the fiscal year 1954 was ended, \$21 million in U.S. defense support supplies and an unspecified amount of military supplies had been committed to Pakistan. Afghanistan felt considerably weakened by these developments. Afghan anxiety was not relieved by the limitation of U.S. military assistance to internal security and legitimate self-defense. In Afghan eyes, this limitation in the use of U.S. arms did not prevent the freeing of Pakistan's own arms for other uses. Moreover, they suspected that, as a member of the Afro-Asian Bloc, Pakistan would become an efficacious advocate of Western policies and indirectly serve American strategic and political interests after it had become an ally of the U.S.-supported defense system.

The anxiety over U.S. military support of Pakistan flared up anew when—after a seemingly successful visit of Prime Minister Daoud in America—the U.S. government formalized its Baghdad Pact commitments in bilateral alliances with Iran and Pakistan in the spring of 1959. Radio Kabul quoted the Prime Minister as saying:

The most important aspect is that such agreements result in the import and stockpiling of arms in the countries concerned. . . . [This] upsets the balance of power, causing lack of confidence between neighboring countries. The upset balance of power also creates a tense atmosphere and limits the likelihood of peace and security in all parts of the region. Furthermore the existence of dreadful weapons exposes the regime to danger. . . . (Quoted in *Area Handbook for Afghanistan*, Special Operations Research Office, Washington, 1959, p. 571.)

DOMESTIC POLITICAL FACTIONALISM AND FOREIGN POLICY ALTERNATIVES

It is worth assessing, however tentatively, those domestic political factors which might discourage or favor a marked swing to the Soviet side. The political power wielded by the landlords who, in such a test of common interest, would be likely to join with the rising business community in defense of the status quo and vested interests would be a factor in resisting this trend. In its opposition to the new foreign policy alignment, the business group has predicted disastrous economic consequences of the commitment of so many Afghan resources to the repayment of Soviet loans and it is convinced that some of the inexperienced young liberals advising the government would be the victims of the superior political skill of Soviet officials. A more tenuous—though potentially significant—source of resistance might stem from appeals to Islamic heritage by the *mullahs* and to tribal loyalties and ancestry, both of which can be contrasted with atheistic Russia and its probable rejection of tribal rights and autonomy.

On the other hand, at least four factors might militate in favor of Soviet political penetration, although it is impossible to assess their relative weight against the others.

There are few ethnic or geographic barriers between the Soviet and Afghan side of the border for at least 300 miles between the Hari and Oxus Rivers. Along the Oxus ferries and warehousing are operated jointly. The cultural and linguistic affinity could be turned into a potential bridge, despite the contrast in the rhythm of life, the political structure of the two communities, and Soviet control over border contacts.

Although a private business group was responsible for the rapid rise of modern industry, for the joint-stock company, and for the national economic conscience some officials and liberal intellectuals are predisposed toward a planned economy which has taken the government far toward statism. Instances of profiteering and corruption under earlier regimes influenced by business also play a role. However, there is no evidence that the government embraces socialism as a value system—although it is much closer to that than to the capitalism of the U.S. or West German variety. Perhaps if the West had produced a cohesive ideological system matched by revolutionary economic changes in an underdeveloped country, the ground would be less fertile for this kind of seed to grow.

There remains a strong anti-colonial resentment, linked with sentiments in favor of industrialization. Afghan leaders still blame British colonial policy for their backwardness. Furthermore, as a protectorate Afghanistan gained its freedom with none of the advantages ex-colonies had—railroads, roads, and frequently a civil service. The anti-colonial attitude is now directed against the Western powers, particularly the United States whose commercial and financial power Afghanistan recognizes. Soviet propaganda plays on the anti-colonial, anti-capitalistic sentiments. It makes Afghans responsive to the Soviet way of doing things even before the first results are in.⁴

One might conjecture whether the ambitions of the ruling authorities might attract them into the Soviet orbit as they accept increasing Soviet aid in order to bolster their internal position. Contrasts with Soviet Central Asia are felt as strong stimuli to rapid development. In 1950 a British Ambassador wrote:

... the Afghan Government is alive to the effects on its own people that any considerable difference between conditions on the Soviet side of the border and their own may have. Therefore special efforts are being made in the northern areas to try to improve the conditions of the peasants. (Sir Giles Squire, *Royal Central Asian Society Journal*, V. 37, p. 16, January 1950.)

Today the government's frequent announcements about five-year plans have further stimulated expectations which cannot be reached except over a slow and arduous path.⁵ Any government that fails to satisfy the exaggerated expectations risks discrediting itself and whatever foreign power is associated with its plans. By the same token, the side which gives most and most rapidly is likely to commend itself as a pillar of the regime's internal stability. Thus the need to bolster the viability of the political structure by absorbing support from outside becomes a decisive weight in favoring of one or the other foreign policy alternative. An analysis of economic programs and problems in this context of complementary or competitive coexistence follows in the following chapters.

NOTES

1. He must be a Muslim. In his oath of accession he promises protection of the religion of Islam. In turn, in the Friday sermons in the mosques his name must be mentioned. For details of religious institutions and practices, see Donald N. Wilber, "The Structure and Position of Islam in Afghanistan," in *Middle East Journal*, Vol. 6, No. 1 (Winter 1952), pp. 41-98.
2. For details on the various Soviet moves to defeat the growing pro-Western lineup insofar as Pakistan is concerned, see Ivar Specter, *The Soviet Union and the Muslim World, 1917-1956*, University of Washington Press, 1956, pp. 124-7.
3. Based on quotes in "Islam and Russia", Central Asian Research Center, London, 1956.
4. There is an odd element of logical inconsistency in the Afghan sentiment. The efforts of Germany's Siemens Company are not bracketed with U.S. private enterprise efforts. Germany's role as a colonizer is forgotten and its private companies have managed to avoid adverse publicity. Perhaps the relatively modest standard of living of the Germans in Afghanistan has something to do with it. More important, perhaps, was the high esteem German technicians and the German government earned by demonstrating once more their ability to return from political and economic defeat to the position of continental Europe's leading industrial nation.
5. For the government's recognition of the several hurdles the current five-year plan has to overcome, see *A Survey of Progress*, a review of the achievements during the first two years, issued by the Ministry of Planning in October 1958.

CHAPTER II

AFGHAN TRADE WITH EAST AND WEST

Foreign trade has been Afghanistan's lifeline ever since the country has been a national entity. In addition to being recognized as the avenue to international status, trade provided the earliest access road to the riches of the world without which no Afghan King or private investor could hope to increase the country's productive capacity. Because trade has been the traditional and most natural way of adding to the meager resources, it has assumed increasing importance as development efforts have become more intensive. Benefits from trade preceded any direct forms of international assistance from advanced countries. Accordingly, trade was to become the first battlefield between Soviet and Free World economic policies and concepts. Although complementary in certain ways, Afghanistan's trade relations with the two blocs have recently become increasingly competitive. The character and outcome of rivalry in trade appear to depend first on the impact of trade on the total economy; second, on the special difficulties faced by Afghan trade; third, on the trade policy the Afghan government has used to cope with the difficulties; and fourth on the relative advantages offered by both blocs.

THE ECONOMIC IMPACT OF TRADE

With few natural resources, Afghanistan depends for most of its consumer goods (except food) and obviously for all producer goods on imports. It has a few specialized export industries which in part compete with domestic consumption for the scarce agricultural resources. Exports provide for badly needed imports and a substantial proportion of the national cash income. Thus government revenues and the amount of exchange between city, village, and nomads—that is, in the monetized segment of the economy—depend on exports. Surplus earned principally from exports of karakul and agricultural products also has been the source of investment funds, increasingly converted into highly productive fixed assets—especially imported textile machinery, cotton gins and oil presses, power generators and trucks. Furthermore, export exchange proceeds in excess of import requirements have allowed the Central Bank to accumulate gold and foreign exchange reserves which not only constitute backing for the currency, but also serve to strengthen the country's international credit-worthiness.

NATIONAL INCOME AND FOREIGN TRADE¹

Agriculture provides 72 percent of the national income and employs 85 percent of the country's working population. The remaining 28 percent of the

NOTE: The footnotes for this chapter will be found on page 35.

country's income is more or less equally divided between industry (including cottage industries), trade and services, forestry, and miscellaneous (see Table II-1).

The relatively productive urban trades have in recent years produced an annual per capita income of about 2,700 afghanis, or \$65, using a conversion of Afs. 40 per \$1 in terms of a rough purchasing power equivalent.² Agricultural per capita income is about half as much. (All estimates include noncash production, unless otherwise indicated.)

TABLE II-1
AFGHAN NET NATIONAL PRODUCT ESTIMATED VALUE, 1953/54

	MILLION AFGHANIS	PERCENT OF TOTAL
AGRICULTURE	9,000	72.0
Wheat	4,085	32.7
Fruits	1,020	8.2
Furs, hides, wool	680	5.4
Other livestock	1,000	8.0
Dairy products	1,000	8.0
Other	1,215	9.7
INDUSTRY	800	6.4
TRADE/SERVICES	1,000	8.0
FUEL (WOOD)	800	6.4
MISCELLANEOUS	900	7.2
TOTAL	12,500	100.0

SOURCE: Ministry of Finance, Reproduced from United Nations, *Economic Survey of Asia and the Far East*, 1954, p. 57.

Much of the production serves subsistence requirements directly, without being exchanged in the market. Exports probably make up the largest element in the national cash income, averaging somewhat over 1,400 million afghanis in recent years (see Table II-2). The second most important source of cash income is employment for wages in industry and handicraft which provides 20,000 employees with about 82 million afghanis.

The country is far from self-sufficient. More than two thirds of its textile requirements, and all of its steel and chemicals are imported, although a variety of consumer articles are fashioned from local copper, scrap iron, and wood. Like most nonindustrialized countries, it must bring in all its machinery and motorized vehicles. Even in food products, shortages occur occasionally—as in 1947, 1952, and 1953—when wheat had to be imported. Only one third of the sugar consumed is locally produced.

Exports in recent years have accounted for 10 percent of the net national product. But if production for subsistence is deducted from the values shown

in Table II-1 and if the unofficial export trade carried on by the *powindah* (nomads) is included in the totals shown in Table II-2, the percentage is nearer 35 percent of the national *cash* income. Fruits and nuts, wool, cotton, and karakul fur have for years dominated the export trade. In recent years these four items have made up between 85 and 90 percent of all exports. In terms of the national net product, the sectors of fruits, furs, hides, wool, and cotton are dominated by exports.

TABLE II-2
RECORDED FOREIGN TRADE OF AFGHANISTAN, 1950-56/57*
(million afghanis)

AFGHAN YEARS (March 21-March 20)	EXPORTS	IMPORTS	BALANCE
1950/51	738.0	532.8	205.2
1951/52	730.3	646.1	84.2
1952/53	989.1	727.0	262.1
1953/54	950.1	1,036.0	- 85.9
1954/55	1,440.1	1,026.6	413.5
1955/56	1,352.0	1,255.0	97.0
1956/57	1,500.0	1,624.0	-124.0

*NOTE: Each year substantial amounts of unrecorded imports reach the country. Failure to record them is caused mainly by the fact that they are not subject to customs duties. For 1956/57 the Afghan government has estimated these imports at 3,222 million afghanis, thus making the trade deficit 446 million afghanis.

SOURCE: Ministry of Commerce; Ministry of Planning; U.S. Embassy; all in Kabul. Figures for 1957/58 were not available at the time of writing.

The unstable value of exports reflects a shift both in volume and in prices abroad. Imports have been marked by a steady upward movement, in line with the demands of the economic development program and the upward trend in import prices. The prevalence of a positive trade balance depicted in the above figures did not result in an equivalent accumulation of foreign exchange reserves, since part of the export earnings were used for invisible imports (other than commercial shipments of goods) and also because the government controls only half of all exchange proceeds.

THE STRUCTURE OF EXPORT TRADE

Of the raw materials exported, skins have grown in importance relative to fruits and nuts (see Table II-3). Despite an artificially low exchange rate applicable to karakul exports, skins rather than fruit have become the largest earner of foreign exchange.

TABLE II-3
AFGHAN EXPORTS BY PRINCIPAL COMMODITIES
(million afghanis)

	1952/53	1953/54	1954/55	1955/56	1956/57
Dried fruit	224	242	432	420	330
Fresh fruit	65	56	115	118	175
Wool	178	149	187	148	152
Cotton	287	169	247	141	189
Karakul fur	157	166	308	292	375
Hides and skins	9	65	24	30	52
Carpets	22	31	47	76	50
Other	47	72	79	127	177
Total	989	950	1,440	1,352	1,500

SOURCE: Same as for Table II-2.

Among export markets in 1956/57 India ranked highest with 30 percent, closely followed by the USSR with 28 percent. Next came the United States (20 percent, almost entirely karakul), followed at some distance by the U.K. (9 percent). West Germany has also become a significant export market.

TABLE II-4
PRINCIPAL EXPORT MARKETS, 1952-56/57

COUNTRY OF DESTINATION	1952/53	1953/54	1954/55	1955/56	1956/57
Total Exports, mill. afghanis	989	950	1,440	1,352	1,500
Percentage distribution: Total	100	100	100	100	100
India	26.3	39.1	36.7	40.8	29.5
United States	21.2	24.4	23.1	27.0	21.3
U.S.S.R.	31.9	12.6	18.8	13.7	27.6
United Kingdom	3.1	4.1	8.7	4.6	8.7
West Germany	5.7	5.7	1.9	2.0	3.3
Other	11.8	14.1	10.8	11.9	9.6

SOURCE: Same as for Table II-2.

THE STRUCTURE OF IMPORTS

As shown in Table II-2, imports have risen steadily; a minor part of the increase in value has been caused by price rises. Among the imports entering through customs consumer goods caused a large part of the increase (see Table II-5). Another large factor responsible for the 1955-56 advance in imports was the growing need for capital goods and building materials required for the new development projects.

TABLE II-5
PRINCIPAL IMPORTS, 1954-56/57*
(million afghanis)

COMMODITY	1954/55	1955/56	1956/57
Cotton piece goods	357	415	357
Rayon textiles	123	208	298
Tea	102	169	135
Cars and trucks	96	37	81
Metal products	34	48	46
Petroleum products	33	46	58
Sugar	34	54	168
Leather and leather products	16	23	20
All other products	232	255	461
Total	1,027	1,255	1,624

*NOTE: Regarding unrecorded imports, see footnote to Table II-2. They consist primarily of capital equipment imported on government account.

SOURCE: Same as for Table II-2.

TABLE II-6
PRINCIPAL SOURCES OF IMPORTS, 1954-56/57

COUNTRY OF ORIGIN	1954/55	1955/56	1956/57
Total imports, mill. afghanis	1,027	1,255	1,624
Percentage distribution: Total	100	100	100
United States	12.2	2.9	3.4
U.S.S.R.	25.2	29.2	36.0
India	24.8	25.5	31.6
Pakistan	16.6	16.7	14.3
Japan	14.6	17.8	6.2
West Germany	1.9	2.0	3.3
Other	4.7	6.0	5.3

SOURCE: Same as for Table II-2.

The largest single supply source since 1954 has been the Soviet Union (see Table II-6). It furnished 10 percent of total imports in 1948, 25 percent in 1954, and 36 percent in 1956, supplying not only traditional materials such as cotton piece goods, sugar, gasoline, and china, but also cement, steel, trucks, cars, and producer goods.

The second largest supply source is India from which Afghans buy primarily tea and rayon piece goods. Pakistan delivers mostly tea, haberdashery, and shoes.

The rate of increase of West German imports (concentrated in capital goods) should be noted. German textile machinery, electrical equipment, and pharmaceuticals have displaced American construction machinery and consumer articles.

GEOGRAPHICAL SHIFTS IN SUPPLY SOURCES AND MARKETS

The ascendancy of the Soviet Union as the most important single source of supply, displacing India from 1955/56 on, was primarily due to the rapidly increased shipments of cotton piece goods, cars and trucks, building materials and metal products. In each of these categories the Soviet Union in 1956/57 supplied more than half of the total value of imports. In the case of petroleum products, the rise was much less rapid, but the Russian share in total supplies reached the same figure. The Soviet Union was and still is the chief supplier of sugar. Table II-7 gives the details of Soviet imports into Afghanistan during 1956/57.

Flour milling and baking machinery, oil storage tanks, street paving equipment (and cement-making machinery from Czechoslovakia) in the amount of about \$10 million (210 million afghanis) must be added to these trade data to round out the picture. In the latter categories, the Soviet Union slowly gained ground over German and American deliveries which dominated the Afghan capital goods portion of imports until 1955/56.

TABLE II-7
IMPORTS FROM THE SOVIET UNION, 1956/57

COMMODITY	IMPORTS FROM USSR (MILL. AFGHANIS)	PERCENT OF TOTAL RESPECTIVE IMPORTS
Cars and trucks	48.0	59.0
Gasoline	17.8	52.3
Kerosene	10.1	47.4
Building materials	27.0	61.5
Iron and steel products	14.0	57.9
Cotton piece goods	208.3	58.3
Sugar	168.4	100.0
Tea	10.2	7.5
All other	79.7	10.5
Total	583.5	35.9

SOURCE: Foreign Trade Statistics 1330-1335, Ministry of Commerce, Kabul, 1957. Excludes items by-passing customs—e.g., government-project capital items and nomad trade.

As far as export markets are concerned, in 1956/57 India was still in the lead, but the Soviet Union's take was only slightly less. In previous years,

the volume of exports to the Soviet Union had been about half of that going to India. The United States was still the third largest customer, remaining the major buyer of karakul furs, with 80 to 90 percent of total exports year after year. Although the Soviet Union is a larger exporter of karakul furs, the possibility of Russian karakul purchases is not ruled out by the potential competition with Afghan exports to third markets. Since the Afghan fur has always commanded a premium over the Russian variety, Russia could well gain from re-exporting Afghan karakul—and incidentally undercutting Afghan dollar earnings.

In other commodities, the competition for Afghan products is pronounced. In 1955/56 the United States bought twice as much Afghan raw wool, mostly for carpets, as did the USSR. In the four preceding years wool exports to these two countries were about equal. However, in 1956/57, the Soviet purchases were four times as high as those of the United States. Other wool markets were negligible.

In the case of dried and fresh fruit, the Soviet Union has become a substantially larger market than the United States. In 1956/57 it bought three times as much as it did in the best of the five preceding years. Nevertheless, it is still far behind India and Pakistan where Afghan fruit is a badly needed supplement to the slim food supplies. The situation is different in the case of cotton. The largest proportion the Soviet Union had ever taken was 65 percent in 1952/53. In 1956/57 the proportion jumped to over 80 percent, not including the 7 percent purchased by Czechoslovakia and Poland (see Table II-8).

TABLE II-8
EXPORTS TO THE SOVIET UNION, 1956/57
(million afghanis)

COMMODITY	EXPORTS TO USSR	PERCENT OF TOTAL RESPECTIVE EXPORTS
Animal casings	.9	.2
Raw cotton	155.4	82.4
Dried fruit	67.6	20.4
Broadtail skins	15.9	76.5
Sheep and goat hides	22.1	42.4
Sesame oil seeds	37.7	99.0
Wool	114.0	75.0
All other	1.6	2.1
Total	414.3	27.6

SOURCE: Same as for Table II-2.

In recent years the pattern of trade balances for important currency areas and countries has shifted considerably. The traditional trade deficit with the

Indian subcontinent temporarily turned into a surplus. Only beginning with 1956/57 did the deficit reappear, due primarily to the increase in consumer demand caused by the accelerated development program. At the same time the trade balance with the United States fluctuated in line with the New York karakul market and the Boston wool market. But the dominant feature of the changing situation has been the emergence of a substantial Afghan trade deficit with the Soviet Union. The traditional bilateral balance between the two countries first gave way to an Afghan surplus in 1952/53. This was offset by a deficit in 1953/54, and by 1955/56 a substantial deficit marked the beginning of the effects of the credit and technical aid agreements.

The Indian and Russian deficit together have contributed to the disappearance of Afghanistan's traditional over-all surplus on merchandise account. Thanks to the increase in exports to the United Kingdom and Germany, the deficit has been kept within fairly narrow limits of the total exports (for details, see Table II-9). However, the deficit on other current balances has made the over-all current account position rather uncomfortable.

TABLE II-9
AREA BALANCES ON MERCHANDISE TRADE, 1954-56/57*
(million afghanis)

AREA	AFGHAN TRADE	1954/55	1955/56	1956/57
United States	Exports	332	365	319
	Imports	125	36	55
	Balance	207	330	264
USSR	Exports	271	186	414
	Imports	259	366	584
	Balance	12	-180	-170
India and Pakistan	Exports	588	608	518
	Imports	425	530	747
	Balance	163	78	-229
Total balance with three areas		382	228	-136
Total balance with other areas		32	-131	12
All areas total trade balance		414	97	-124

*NOTE: Because capital goods imports on government account are unrecorded, the surplus balances with the United States were in fact much smaller, and the deficit balances with the USSR much larger, than shown here. U.S. customs reports put the Afghan trade surplus with the United States at \$7, \$11, and \$2.5 million in 1956, 1957, and 1958, respectively. The trade deficit with all areas in 1956/57 was officially estimated at 446 million afghanis.

SOURCE: Same as for Table II-2.

RECURRENT TRADE AND TRANSIT TROUBLES

Afghan exports have suffered persistently from two difficulties: First, because of a poorly developed market system (imperfect communication, unsatisfactory transportation and storage facilities) and uncontrollable factors like weather, agricultural producers generally have been unable to adjust supply according to the pattern of demand. The result has been erratic prices. Second, the growing concentration of karakul sales in the United States has been accompanied by a chronic depression in the American fur market. Attempts at export diversification (cotton and wool) did not stem the tide toward a re-orientation in Afghan foreign trade policies from 1954 on.

The first serious setback in transportation was suffered as the result of the India-Pakistan conflict just as Afghanistan had started its development program. The second setback occurred in 1951 as a result of disagreement and disturbances over the future of the border area Pakhtunistan, but it was soon remedied. The third and most serious disturbance arose in 1955 when the border dispute flared up again. Crates for American and German construction projects were sidetracked, damaged, or lost; much perishable fruit spoiled. For the first time in the postwar decade the Afghan trader felt the stranglehold of his country's landlocked location. These troubles had significant political consequences since the Soviet Union had offered transit facilities to replace the traditional route through Pakistan.

The Soviet substitute of transit facilities and essential commodities was a mixed blessing. True, sugar, cement, and gasoline were life-savers, but the transit arrangements proved disappointing. Although freight rates over the long rail track to Moscow and Baltic harbors were cut, thousands of crates were lost and others were severely damaged during the Oxus frontier crossing. According to reports given by eyewitnesses, some crates served as a bridge across the shallow parts of the river. All were dumped in sandy compounds which served as warehouses without protection against rain, wind, and pilferage. Only after these debacles did work on loading and warehousing facilities start. Finally, in June 1958, Afghanistan and Pakistan signed a pact guaranteeing reciprocal transit rights across each other's territories. The accord was seen as a hopeful sign of improved relations between the two countries. Plans for improved railroad and warehousing facilities, financed in part by the United States, and a free-zone area in the port of Karachi were nearing implementation early in 1959. But on the Russian border, too, by 1958, vital improvements in the loading and warehousing facilities at Kizil Qale had been effected and a new transit agreement had eased the transit burden across the Soviet Union.

FOREIGN EXCHANGE PROBLEMS

Since 1954, the Afghan Central Bank has imposed increasing control over foreign exchange receipts, about 75-80 percent of which represents karakul sales in the West. The excess of foreign exchange receipts over expenditures in recent years has been barely sufficient to meet the country's need

for essential consumer goods, let alone finance the planned development program. It may be estimated that total development outlays of \$4-5 million per year—an extremely modest sum equivalent to 1 percent of the net national product—involves foreign exchange requirements of some \$3-4 million annually. It is difficult to visualize how such additional exchange receipts could have been obtained from exports.³

Foreign exchange difficulties have been compounded by (1) the government's rather rigid approach to the problem of currency backing, which has tied up foreign exchange reserves; and (2) reliance on deficit financing, one result of which was an 82 percent rise in living costs between the start of 1956 and mid-1957, as the money supply increased by 42 percent between March 1955 and March 1957.

Nonetheless, the Finance Minister in September 1956 drew up a five-year plan (1956-60) based on further deficits. The annual foreign exchange deficit in the current accounts was put at \$21 million equivalent, reflecting an annual gross requirement of \$81 million for government and industry, compared with average annual total Central Bank foreign exchange expenditures in 1955/56 and 1956/57 of \$22 million. In addition, loan amortization during the five-year plan was expected to require about \$12 million equivalent per year. Consumer needs (other than those covered from the Government Monopolies Department) did not receive extended consideration.

To match this drastic increase in Central Bank exchange expenditures, the plan staked out some equally drastic increases in export proceeds. Wool, cotton, and karakul together were to earn annually about \$47 million equivalent, compared with \$21 million in 1954/55. All other exports were to yield \$12 million more a year. No detailed explanation as to how this increase was to come about was given. And yet, the Minister of Finance had to reckon with a cumulative foreign exchange imbalance of \$167 million. Assuming that all of the \$100 million of the 1955 Russian credit and perhaps \$20 million from ICA could be counted on towards this deficit, the government still needed about \$50 million to put the plan into effect.

Despite misgivings, the government embraced the plan and gave the new targets wide publicity. It thus was politically committed to carry it out. However, political enemies of the Finance Minister, who was responsible for the plan, swept him out of office on July 7, 1957 before he could proceed further with his destabilizing policies. Subsequently the government seemed willing to abandon some of the extravagant features of the plan. From indications available late in 1958, a more conservative approach seems definitely to have taken hold.⁴ This would mean a lowering of the exchange requirements and hence abandoning further planned foreign exchange deficits.

The government tried to maintain a balance between growing exchange demands and unreliable export proceeds by a system of multiple exchange rates tied to export and import priorities. Inevitably, this approach included discriminating features. For example, karakul exports, monopolistically marketed and a fairly steady exchange earner, were accorded less favorable

exchange treatment than exports the government wanted particularly to encourage. Conversely, imports seen as promoting industrial expansion were given privileged rates.⁵ This probably led to a neglect of small-industry development. In any case, the system could not raise enough foreign exchange for all needs. This deficiency increased the interest in competition between the Soviet Bloc and the Western trading nations.

COMPETITION BETWEEN TRADING TECHNIQUES AND TRADING PARTNERS

The new rivalry focussed on four aspects of trade: terms of trade, quality, volume, and payment terms.

THE TERMS OF TRADE AS FOCUS OF COMPETITION

More significant than Afghan statistical data, which are notoriously unreliable, are perhaps the impressions of the officials in the Ministry of Commerce. The Deputy Minister, with a Western business outlook shaped by several years' experience in the United States, reported on his negotiations with the Russian trade delegation in 1957. He said that prices offered by the Russians were generally higher by a few pennies than the world market prices, for example, in cotton and wool. Afghans insist on higher prices, about 3¢ per pound of cotton, because the Russians save transportation from the world markets on which they would otherwise have to buy, say, from Hamburg or Liverpool, and are apparently willing to pass the savings on to the Afghans. On the other hand, the Afghans save transportation on selling their commodities to the Russians for the same reason.

On imports from Russia, the Minister claims to have been equally lucky. Gasoline which the Russians offered for \$65 per ton in the July 1950 barter agreement, was sold for \$52 to \$53 per ton in 1956/57, as compared with \$60 for Pakistani (Burma Shell) gasoline. The Soviet price is borne out by the official trade statistics. This, the Ministry feels, is not an artificial price, but reflects the proximity to the nearest refinery and the shorter haul from refinery to Afghan destination points, especially the northern provinces and Herat. Considering the transport hurdles, it would appear that the price advantage of the Russian gasoline is lost somewhere between Kandahar and Kabul. The result is that Kandahar, the whole Helmand Valley, and the area east of Kabul operate on Western gasoline. Since the traffic volume (inclusive of diesel consumption) is about evenly divided between north and west on the one hand and south and east on the other, an equal apportionment of the Afghan market between Russian and Western petroleum products seems to be justified on economic grounds—provided that the Russian price (f.o.b. customs house) is kept 5 to 8 cents per kilo below the Pakistani price. Should the Russian price be reduced by more than this margin below the Pakistani price, further inroads of the Russian product would become economical. Total imports of petroleum products in 1956/57 were in fact about evenly divided between Russia and Pakistan, corresponding with this natural division of the

market. However, as the number of Russian trucks had increased rapidly by 1959, it could be expected that high octane gasoline from the West would be further displaced regardless of price because Russian truck engines cannot operate on high octane gas.

As for prices on cars and trucks, they cannot be matched by Western suppliers. But the Afghan driver recognizes important quality differences, and ministry officials are not swayed by the price differentials. They are under no illusions as to the ultimate objective of the Russian trade drive. They have gone through long stiff bargaining sessions with the Russians. They are convinced that the Russian trade delegations are out for the maximum economic benefit the delegations can squeeze out of the Afghans and that the Russians are actually gaining from the exchange, in true classical fashion. So, apparently, are the Afghans.

The absence of quantitative restrictions on imports from most Western countries keeps Russian selling prices in Afghanistan under the competitive pressure of the world market. Nevertheless, manipulation is still a powerful weapon in the arsenal of Russian price policy. For example, during the 1955 interruption of trade with Pakistan and across it, Russia apparently flooded the country with cotton textiles at the extraordinary price of 25 afghanis per kilo, compared with the Indian price of 70 afghanis and the 1954 Russian price of 61 afghanis. In 1956/57 the average Russian price was much higher.

It may be safely said that, manipulations aside, the terms of trade offered by Russia are, on balance, to Afghanistan's advantage relative to those offered by the West. But price is by no means the only yardstick the Afghan trader and consumer use.

QUALITY AS FOCUS OF COMPETITION

Neither Afghans nor Russians brag much about the quality of their products. Afghan wool is unwashed and poorly graded. Afghan cotton, although of the highest lustre and whiteness (testified to by an Egyptian cotton expert working for the Cotton Company in Kunduz), is not graded properly when offered to foreign buyers. Mixed grades present a serious problem to the spinning departments. Afghan rugs are no longer of the fine, close weave for which "Bokhara" and "Mawri" were known in prewar years. Afghan dried fruits are shipped without proper grading or packing. For all these reasons, Afghan products have been fetching considerably lower prices in Western markets than they might have otherwise. Apparently this is not a serious drawback in the Russian markets.

The low average quality of the Afghan product is matched by the low average quality of the Russian product. The gasoline contains evil-smelling impurities which reduce the efficiency of the combustion engine using it. Russian kerosene has a specific gravity of 0.825 compared with the American gravity of 0.795.

Russian trucks are no match for International Harvester trucks, as both the drivers and the Ministries testify. They present a discouraging maintenance problem because of the lack of spare parts and trained mechanics. The Pobeda cars have proved too light for the rugged Afghan roads, as are the Skoda passenger cars which the Monopoly Department substituted for the Chevrolet as the government-distributed car. The situation a few years ago was such that Ministries saddled with Soviet cars were trying their best to pass them on to the Ministry of Defense, known for its love of Soviet equipment and vehicles. But even that Ministry had become dissatisfied with their quality.

The quality of German and American products ranks above all others. And there seems to be no doubt among businessmen that the public, if it had a choice, would prefer these products to the Russian ones, and would even pay higher prices for them.

But if the lag in quality on the Russian side is matched by that on the Afghan side, then the aforementioned advantage in the terms of trade can only be maintained if Russians and Afghans can evaluate the relative quality of each other's products and Western products. Here the Afghans are at a decided disadvantage. The Russians have experts grading Afghan cotton and wool, skins and vegetable oil seeds. The Afghans, however, can offer no comparable talent qualified to judge, in precise price terms, specifications and gradations in quality of such items as trucks, bulldozers, and other complex machinery. Reports of cotton shipped to Russian warehouses remaining in storage because of disagreement over grading confirmed the inequality in bargaining over quality.⁶

BILATERAL BALANCING AND VOLUME STABILIZATION AS FOCUS OF COMPETITION

For years Afghan-Soviet trade has been based on annually renewed barter agreements. Frequently such agreements also provide for capital installations to be exchanged against such items as staple agricultural products. Several advantages of barter agreements of this type are usually claimed by the participant countries. The foremost advantage claimed is that the balancing of trade accounts between the contracting parties minimizes the danger of disturbing trade imbalances for either partner.

A second advantage claimed, especially with countries of the Soviet Bloc, is the assurance of a stable volume of imports and exports for one year if not several years ahead. In contrast, multilateral trade relations conducted through private enterprise channels allegedly make it difficult, if not impossible, to forecast the exact quantity and value of transactions between trading partners, thereby preventing a planned allocation of resources between export and domestic consumption sectors.

Afghan policy makers have claimed these and other advantages for their bilaterally balanced trade deals with the Soviet Union. But a bilateral balance actually materialized only in two of the last 6 years for which the government

has released detailed trade statistics. The data recorded for the Afghan-Russian trade balances (deficits in parenthesis) from 1951 to 1956 were as follows:

	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57
In million afghanis	34	215	(151)	12	(180)	(170)
As percent of total trade turnover	14.5	51.5	(38.7)	2.3	(32.7)	(17.1)

In contrast to this irregularity, the balance with the United States showed a consistent surplus, although it was of varying magnitude. The Afghan government could thus depend on some dollar earnings available for meeting deficits on other than merchandise accounts with the United States and trade deficits with other countries.

Similarly, the quantities of imports from the Soviet Union (as shown in Table II-10) reveal a very uneven and seemingly unplanned delivery schedule, especially in consumer goods where fluctuations of requirements would be least welcome.

TABLE II-10
COMMERCIAL IMPORTS FROM THE USSR, 1954-56/57
(thousands of kilos unless otherwise specified)

COMMODITY	1954/55	1955/56	1956/57
Cars and trucks, nos.	54	64	424
Other vehicles, nos.	150	83	—
Gasoline	200.9	2,681.1	11,597.1
Kerosene	251.4	514.0	2,519.6
Lubricants*	17.8	382.4	1,174.5
Building materials	1,107.8	16.1	2,199.9
Iron and steel products	1,909.6	4,549.0	1,446.7
Cotton piece goods	2,876.6	9,410.7	1,850.9
Sugar	4,905.5	8,353.1	19,918.8
Teas and spices	119.6	12.9	268.0
China and glassware	33.6	75.8	117.6
Stationery	29.8	142.0	43.3

* Indicates additional imports measured in units other than weight, depending on nature of commodity.

SOURCE: Ministry of Planning.

The volume of exports to the Soviet Union has also been uneven, not only for commodities subject to the vagaries of weather, but also for hides and skins, wool, sesame seeds, and other items. The year-to-year changes could hardly have been more pronounced had Soviet export orders originated in a free market and private enterprise system. The major advantages usually derived from a barter exchange system seem to have been lost to Afghanistan.

There remain some minor advantages which free market trade relations with the West do not offer. In the first place, the barter country receives the full benefit of the value of its exports because the foreign exchange proceeds are returned to the country directly in the form of imports instead of being channeled first to the exporters and then to the Central Bank where part of the proceeds might be lost through capital flight. In the second place, the bargaining process over prices and quality is concentrated in the hands of one buyer or seller, that is, the state trading agency. Under a normal trading system, individual Afghan exporters and importers would face the Soviet trading agency with far less market control and hence less bargaining power. The Afghan economy benefits from the monopoly-monopsony position the government enjoys vis-a-vis the Soviet Union's state trading apparatus.

These advantages may well have attracted the government towards an expansion of trade with the Soviet Union even if there had been no other advantage accompanying it (such as the terms of payment and long-term credits discussed below). But there are decided disadvantages connected with the bilateral barter system of which business and government traders are well aware and at times complain.

In the first place, the necessity to arrange in advance for equality of export and import values (that is, in the absence of a credit which would permit a wider than normal swing) limits the choice of Afghan imports in regard to varieties and prices. No effort has been made (nor would it have been successful) to convert surplus ruble balances earned into Free World exchange or gold.

In the second place, the bargaining process between the Afghan and Bloc trade delegations, which the Afghan Deputy Minister of Commerce boasts about, is actually quite unbalanced when compared with a similar relationship between individual Afghan and Western traders. Even when shown that the Bloc trades at world market prices, some Afghans tend to overlook the Bloc's ability to control the quantity of their goods available for sale, thus forcing Afghans to buy certain products simply by declaring others unavailable and/or refusing to make credit balances convertible into Free World currencies. As a result, Afghans may be forced to buy products they do not need, merely in order to square their accounts with the Bloc countries. Thus far nobody in Afghanistan has complained about this possible disadvantage, simply because everything the Bloc sells is needed equally badly in Afghanistan, so that the danger is potential rather than actual.

In the third place, the uneven bargaining power and the absence of a market mechanism leads to the acute danger of reexporting by the Soviet Union of Afghan products to third countries in competition with direct Afghan exports to the same markets. The ready availability of export subsidies under the Soviet trade regime, aimed at obtaining an advantage in a Western market, hangs over Afghan exports like a dark cloud threatening to lower Afghan export prices in third markets. During the visit of an Afghan mission to Turkey in March 1957, the Turkish Foreign Ministry officials warned the Afghans of this danger (which has affected the Turkish tobacco sales in Western Europe). The Afghans reacted with a shrug of their shoulders. Up to that time they had

not encountered the "Turkish" troubles. But they would have no defense against any such future undercutting.

While bilaterally balanced Afghan-Russian barter trade offers no net advantage to the Afghans which a private enterprise trading system could not match, there seem to be some distinct advantages emerging from the Soviet-Afghan trade pattern. However, a larger volume of trade with the USSR stems from economic geography and transport cost differentials rather than successful competition in trading techniques or, with some exceptions, any inherent benefits in bilateralism.

The Afghans are aware of the few advantages of bilaterally balanced trade. They refer frequently to the small likelihood of saturation in the Soviet market for wool and cotton such as occurred in the West. In fact, in some cases the attitude of Egypt towards Russia was defended by the Afghans in terms of the availability of markets for Egypt's large stocks of cotton unsalable elsewhere. Moreover, the Afghans live under the illusion that the USSR offers volume guarantees. Even though there has been no stability in the quantity of sales to Russia, Afghan officials feel that any quantity the country can spare will be taken off their hands. There seems to be no equivalent to this in multi-lateral trade.

THE PAYMENT TERMS AS FOCUS OF COMPETITION

The obvious attraction for any Afghan importer is flexible payment terms. In comparing Soviet Bloc terms with those available in the Western countries, the importer has a variety of situations to survey.

In the case of imports from the United States, both government and private traders are up against stiff conditions. There are no commercial credits to help them. Applications to American banks or suppliers by the Afghan-American Trading Company for short-term accommodations have been unsuccessful. A 60- to 90-day draft, generally backed by a letter of credit of a big bank, has been the maximum relief available.

In the case of imports from Germany (see Section 1, Chapter V), the terms for short-term credit are much more flexible; however, long-term credits have not been available from either German private or governmental institutions. The typical payment for trade transactions not financed by short-term credits is by compensation deals.

Recently German exports of household goods began to be sold against local currency to be invested in repair and display facilities. The Siemens Company also works under construction contracts for the government and private companies for which the aforementioned insured short-term credits are available. The investment in repair and servicing facilities has given the company an excellent reputation since there is virtually no other repair service for modern electrical appliances. The ulterior motive of the company is quite obviously to land more lucrative construction and engineering

contracts. It would have had the inside track on many of the projects the Russians have been surveying if only the company could have obtained long-term credit accommodations for its Afghan customers. In January 1958, a West German government mission visited Kabul negotiating a comprehensive economic cooperation and technical assistance agreement, according to which payments for current imports would be in freely convertible currency rather than compensation deals; however, no credits were forthcoming.

Arrangements similar to the one worked out by Siemens were proposed by the U.S. Embassy to several U.S. firms, but there was no response with one exception. That one exception was Pan American Airways' investment of \$400,000 in the Afghan National Airline (Aryana) in 1957, thus giving PAA 49 percent of the stock in return for goods, services, and know-how. Since 1957, 25 PAA personnel have been effectively helping Aryana to manage the line and train understudies for the Americans.

Soviet Bloc short-term credit terms have been available since 1954, the first loan financing, over five years, two silos, a flour mill and bread-making plant (\$3.5 million equivalent) and the second financing a (Czechoslovak) cement plant and several other items totaling \$5 million, also over five years. In addition, the Russians have been willing to let the Afghans run up a deficit in their annual barter of products. The loans for the projects were cheap at 3 percent a year, compared with loans of this type available in the West. However, like the German financing of the textile mill and power plant, the Russians charged for the technical supervision, training, and demonstration services, there being no grant money available for technical assistance. Therefore, the comparison with U.S. loans should allow for a zero interest on the cost of the U.S. grant money allocated to technical assistance. In Afghan eyes the comparison with German loan rates (7½ percent) certainly makes the Russian money cheap. Furthermore, compared with the German credits, Soviet Bloc credits are on the average available for longer periods. If complex Soviet equipment and machinery were accompanied by adequate repair parts and service facilities, they would be a fairly even match to the Germans'. This possibility may have dawned on a Soviet trade mission when it proposed several years ago that comprehensive Soviet repair facilities be installed at Jangalak, just outside Kabul.

EVALUATION OF AFGHAN-SOVIET TRADE

By 1957, the data presented earlier in this chapter show the USSR not only to have increased the absolute volume of its trade with Afghanistan, but to have raised its share in total Afghan trade to some 32 percent—28 percent in Afghan exports and 36 percent in Afghan imports. Moreover, Russia's share in exports and imports of vital commodities accounted for an average of 50 percent or more.

Very few data were available at time of writing which could shed much light on more recent trade developments. Information from Soviet sources and a U.S. State Department publication⁷ suggest that the Soviet share in Afghan

imports held its own in 1958. But whereas the State publication suggests a possible increase in the share of Afghan exports to the USSR, the Soviet data indicate a sharp absolute and relative drop during 1958—centered in reduced shipments of karakul, cotton, and wool—resulting in a decline of the Soviet share to about 23 percent. Incidentally, U.S. Commerce Department data indicate an almost similar decline in Afghan exports to the United States during 1958, suggesting a poor crop year. For both exports and imports, this would mean a Soviet share in Afghan trade turnover of about 30 percent in 1958.

It appears, however, that Afghan exports to the United States have maintained a greater degree of stability than imports from the United States, which have become less and less important. Except for trucks and construction machinery, they have not dominated any category of import commodities. Even in these areas ground was lost to the Soviet competitor. Germany is the sole Western country whose imports have kept up with the Soviet trade trends. The forces that have pulled Afghanistan's trade closer into the Soviet orbit were obviously stronger than those counteracting this pull.

ECONOMIC FORCES FAVORING TRADE WITH THE SOVIET BLOC

The factors contributing to the increasing share of Russian trade have been both basic (insofar as they laid the foundation for the shift in the geographical pattern of trade) and precipitating (in determining the onset of the shift). The five basic factors may be summarized as follows:

1. The *exchange shortage* was apparently the most enduring weakness predisposing the Afghan government towards the growing favors tendered by the Soviet Bloc. Hope was nourished for an increase in foreign purchasing power if the trade pattern were shifted.
2. The factor of *geographical proximity* involving the saving of internal transportation cost to the northern border represents a net gain. The additional resources necessary to export more wool, cotton, or sesame seed to the Soviet Union were less than would be required to export the same additional quantity of wool, etc., to Pakistan or the United States.
3. The *terms of trade* proposed by the Soviet trade agencies, though not measurable precisely at the time, seem to have been more favorable than those obtainable from the West. In all probability some of the favorable price terms date back a considerable time and thus laid the foundation for an increase in Soviet trade long before the shift actually occurred.
4. The *absorptive capacity of the Soviet market* for products not readily sold to the West (for example, sesame seed, hides and skins, and dried fruit) was a strong inducement. The Afghan supply of these commodities was small in relation to Soviet needs and there was a world-wide tendency in Soviet imports favoring agricultural materials. Conversely, the Western agricultural markets showed intermittent tendencies towards saturation.

5. *Hope for more stable exchange* of goods may initially have stimulated interest in more active intercourse with the planned economy of the Soviet Union. Fluctuations in foreign exchange receipts from the West had frequently upset development plans of both government and industry and were in alleged contrast to the Soviet five-year plan system. But this attraction weakened as Soviet purchases in Afghanistan showed no more "planning" than did purchases by the West.

The two main factors which determined the timing of the increase in trade with the Soviet Union were the crisis produced by the transit troubles in Pakistan and the availability of Soviet short- or medium-term credits. True, the predisposing causes, had they continued to press on Afghan policy makers, might have generated a shift in the geographical trade pattern in due time. But this is a matter of speculation. The transit and credit shortages were tangible and persuasive.

ECONOMIC FORCES DISCOURAGING SOVIET TRADE WITH AFGHANISTAN

1. *Enhanced Soviet influence on total Afghan trade* is the foremost of the deterrents acknowledged in business circles. Even if Soviet trade with Afghanistan should grow to the extent promised by the long-term loans, it would still be only a drop in the total Soviet bucket. If, for Russia's own reasons and in its own interest, trade with Afghanistan were curtailed or cut off, such an interruption would not materially disturb the Russian economy, but it would cause tremendous damage to Afghanistan's narrow economic base. The shortage of Russian spare parts and repair facilities has already reduced the advantages of expanded trade with the Soviet Bloc.

2. The *inequality in the bargaining power* of the two trading partners shows up especially in grading and quality differences, and in testing specifications. The shortage of expert personnel and know-how among Afghan civil servants puts the Afghan trader (whether a private or government representative) at a decided disadvantage vis-à-vis his Russian counterpart.

3. *Administrative incompetence*, as many businessmen have learned, shows up in the conduct of trade through state agencies which lack not only traders' experience but also organizational efficiency. Drawing up lists of import needs for the whole country rather than for a single company and matching them against the most readily available surplus production presupposes at least a grasp of cost factors and economic priorities, which the average Afghan civil servant does not possess. The results have often been disastrous—with cotton left unsold in some foreign warehouse or price advantages given up without any gain in sales volume. The force of this adverse factor in trading with the Soviet Bloc, of course, depends on the degree of recognition given to it by the Afghan government. There have been and continue to be frequent complaints about it on the part of the business community and strenuous efforts are being made to correct the defects. That competent personnel is the first prerequisite has been frankly recognized by the government in its "Survey of Progress". A newly projected Institute of Public Administration in Kabul is a big step toward overcoming this shortage.

NOTES

1. Statistical indicators of the domestic Afghan economy and its foreign trade are of varying and sometimes very doubtful reliability. Valuation of foreign trade is rendered difficult by the existence of multiple exchange rates. This cautionary note, while probably not invalidating the tenor of the argument and conclusions, should be borne in mind in the course of this and the following chapters.
2. The official exchange rate is 21 afghanis per \$1 (spring 1959).
3. The clearest evidence of the exchange shortage was the widening gap between the official exchange rate (16, later 21 afghanis to the dollar) and the free market rate. The latter averaged 37 in 1953, reached 57 in March 1958, and 60 early in the fall of 1958.
4. The changed financial policy after the dismissal of the Finance Minister is reflected in the introduction to the above-mentioned *Survey of Progress* where the "dangerous path of increasing the money supply" is decried as contrary to social justice and stable development. *Bakhtar News Agency Bulletin*, October 8, 1958.
5. For details, see International Monetary Fund, *Annual Reports on Exchange Restrictions*, especially Eighth (1957) and Ninth (1958).
6. This disadvantage on the Afghan side is to some extent offset by the competitive pressure to which Russian imports are exposed due to the absence of quantitative import restrictions on Western imports.
7. An article on Afghan foreign trade in 1958 appeared in *Vnesbnaya Torgovlya*, August 1959. The State Department release is Intelligence Report No. 8001-R, *Status of the Bloc Economic Offensive at the End of 1958*, August 13, 1958, p. 38.

CHAPTER III

ECONOMIC AID PROGRAMS BY THE FREE WORLD

Interruption of import supplies during World War II, despite an accumulation of foreign exchange, demonstrated the basic instability of a country relying on agricultural exports and manufactured imports. This realization, combined with a widening demand for a rising standard of living, called for more intensive exploitation of domestic resources. For centuries Afghan technology had remained virtually unchanged. Despite evidence of ancient irrigation skills, practices were primitive. Fertilizer, improved seed, and the techniques of leaching salty soil were unknown. Animals suffered from malnutrition and disease. Two or three million nomads raised their livestock under unregulated grazing systems on inadequate grasslands. Yet breeders of Afghanistan's precious karakul sheep were an alert, skillful group, anxious to learn.

In most of the country, industrial technology had not progressed beyond handicrafts and cottage industry. Modern techniques had been introduced only in two cotton textile mills and a beet-sugar refinery. Although it was compulsory and free, primary education remained at the level of rote study; the literacy rate in the late forties may have been 6 percent. Only a small number of economically privileged boys could afford to go through Kabul University or foreign institutions.

BEGINNINGS OF WESTERN AID — MORRISON-KNUDSEN OPERATIONS

The opportunity for American aid came in the field of technical assistance with the 1946 \$17 million contract—the first of three such contracts—with the Morrison-Knudsen Co. of Boise, Idaho for four irrigation dam repair and restoration projects, new canals, and about 450 kilometers of highway rebuilding. These activities were to be centered in the Helmand Valley, a semi-arid area in central and southwest Afghanistan. In addition to building structures, M-K was to train a corps of Afghan technicians who would eventually take over the maintenance and supply organization.

For the next decade, work progressed only slowly. At the beginning, an unanticipated and disproportionate share of expenditures went into equipment and camp structures rather than into the programmed construction and development work. Prices rose and exchange reserves dwindled. The original \$17 million estimate soon rose to nearly \$40 million. While new financing and contract extension had to be negotiated, frantic efforts were made to keep men and machines busy on a variety of side projects. U.S. Export-Import Bank

NOTE: The footnotes for this chapter will be found on page 54.

loans totaling \$39.5 million (extended in 1949 and 1954) permitted work to go forward, although not without additional difficulties. The Pakistan border crisis interrupted work. The Afghan government's commitment to a development program did not stop indecision on project priorities; moreover, the government felt compelled to impose on M-K a task it could not handle itself and one well-nigh impossible for a construction firm—that of reclaiming, preparing, and helping settle 16,000 acres of land. Further, there were not enough Afghans trained to handle the administrative, economic, and social problems involved in such a move.

Still, under the second and third contracts with M-K, construction operations were fairly smooth; by 1956, M-K had spent \$54 million on Helmand Valley structures, largely for irrigation and land development. Reservoir dams across the Helmand and Arghandab Rivers were completed with a speed admired by all Afghans. More than 4,000 Afghan workers benefited from this construction experience; many of them became trained mechanics. In addition, in 1957-59 the structures built by M-K prevented serious flood damage in many areas.

Nevertheless, the prevailing feeling—at least in Afghan government circles—in mid-1959 was tellingly expressed by the President of the Helmand Valley Authority who wrote M-K that no substantial benefits had been reaped from the construction work of the firm.

The difficulties characterizing the Helmand Valley development up to 1954 can be laid at the door of no single party. Some initial obstacles were beyond anybody's control: strikes in the United States and Pakistan border troubles which held up machinery, British fuel quotas which limited the oil supply, and price rises combined with falling exchange revenues which made additional borrowing necessary.

The Afghans blamed M-K publicly for the failures; privately, M-K blamed the Afghans. Both were operating in areas beyond their capabilities; neither recognized at first the limitations of the other. Moreover, the role of the U.S. government became more active only with the start of the East-West competition.

Afghanistan's shortcomings in handling the projects can be attributed to the weakness characterizing underdeveloped government—lack of proper planning and administrative machinery. The latter depended on the agricultural planning which had run into snags. In addition to problems of settlement, insufficient attention had been given to that of reimbursing the government for land, water, and services. Production and settler income were low and squatters settled on nonirrigable land while thousands of applicants waited. All these inadequacies made the government turn to M-K for help above and beyond actual engineering.

M-K's initial objective had been to build specified engineering works in the quickest and most effective way. Thanks to many improvised solutions to novel situations, the company lived up to its reputation as a fast, dependable

construction firm. But gradually M-K had to assume additional responsibilities because of the government's unexpected lack of preparation, the uncertainty surrounding the physical and engineering features of the structures, and the considerable doubts developing over the economic merits of the reclamation and settlement program. These factors did not seem to be sufficiently allowed for in the company's agro-economic estimates—particularly projections and computations of cost-benefit ratios—with resultant deficiencies of resource allocation. To protect itself in the face of the Afghan government's desire for only perfunctory surveys, M-K had a clause in the contract which spared it legal consequences; but this clause could not protect it from public blame.

In trying to carry out nonengineering functions, the company was confronted with both a challenge and a handicap. Its appetite for work and its desire to complete a strategic job led it to accept the challenge of assuming (not nominally but actually) the functions of an Afghan Bureau of Reclamation. However, as the field personnel had not been selected for the new function, an additional burden was placed on the engineers already severely tested by the strange environment. Although M-K could hardly escape the assumption of some responsibility, it was undoubtedly faced with a most difficult assignment under these circumstances.

Widespread adoption of a new technology entailing profound social changes demands a key role of those persons most influential with and respected by the population. It would therefore have been fruitful for the company to use initiative in finding leaders among the settlers, resident farmers, government officials, and businessmen who could assist in this transformation. The company probably should not be held responsible for failing to take action in a field outside of its competence. But it might have called attention to the limits of its resources and the possible results of lack of action. The undoubted technical efficiency in M-K's construction work, later confirmed in the airport and bridge building work, was not sufficient to overcome its shortcomings.

In the face of such obvious difficulties, the sudden increase of U.S. government activities was bound to be significant. Yet the provisions of the Export-Import Bank loans—tied to M-K, to the acute disappointment of the Afghans—did not seem to recognize that advice and aid beyond the vision of engineers was now sorely needed. And, although by 1949 the President of the United States had proclaimed his Point Four message, it was another two years before an ICA aid agreement with Afghanistan was signed. These two subjects are discussed in the following sections.

THE FIRST EXPORT-IMPORT BANK LOAN

The first American loan was precipitated by a confluence of adverse developments. The fiscal year 1947/48 required a withdrawal from Central Bank exchange reserves of 146 million afghanis—continuing the trend started the year before. The foreign assets of the Bank-e-Millie—the only other bank—had fallen by about 29 million afghanis because of the drop in Afghan exports

and the increase in machinery and materials purchases from the United States. The result was a net dollar trade deficit of \$4 million in contrast to previous positive balances of over \$7 million. Yet within another year all the \$17 million of the M-K contract would be spent—with no more dollars in sight and the export-earning aspects of the Helmand project extremely doubtful. The government could slow down, but only at the risk of losing considerable national prestige and political support from the Helmand Valley tribes. The revival of the old irrigation system in the Helmand Valley and the restoring of the ancient glories destroyed by Genghis Khan had become a matter of national pride—in spite of warnings about the economic pitfalls which the Cabinet had received from the Minister of National Economy. This left the government only one choice: the search for foreign financial support.

An Afghan mission sent to Washington in 1948 was convinced that to accelerate improvement and reform the government had to assume greater responsibility in the economic domain and encourage greater participation by the leading social groups. Lack of popular confidence in the country's economic leadership could undermine the government's stand on vexing international issues. Accelerated economic development supported by U.S. financial aid might help to build up that confidence.

The State Department recognized the political need for underpinning the Afghan economy generally and the American contractor in particular, and the atmosphere was generally favorable for financial aid to underdeveloped countries. However, the U.S. government was not yet ready to act on a mere request for aid. Afghanistan's resources were not essential to the United States nor had the country found its place on the checkerboard of the East-West struggle. The Export-Import Bank made clear that it would prefer to consider individual projects accompanied by detailed information supporting the repayment capacity of the economy.

In an effort to meet the Bank's wishes the Minister of National Economy heading the mission worked out a simple but comprehensive list of projects totaling \$118 million—repayments to start in the sixth year of the five-year plan and to end in eleven years (see Table III-1). The chief criteria were the feasibility of each project based on Afghanistan's experience and the political and social status of the sponsoring official or agency. The strongest case was made for industrial investment in which the Minister had a strong personal interest. There is no evidence that the factors bearing upon the country's capacity to absorb these many projects were realistically assessed.

The first disappointment for the Afghans was the Bank's setting a maximum credit limit and selecting projects within that limit. This contrasted not only with the Afghan prewar lump sum loans from Europe but also with the Bank's loans to Israel, Turkey, and Mexico. However, the mission's protests were unavailing. Next, the Bank questioned Afghanistan's debt-servicing capacity. In its endeavor to be accommodating, the Afghan government made an over-optimistic forecast of net export earnings; it concluded that the net increase in the trade surplus would be adequate to service a loan of at least \$55 million from 1954 to 1967, assuming that the projects yielding the additional exports and saving some imports would be completed on schedule.

TABLE III-1
COSTS OF A PROPOSED FIVE-YEAR PLAN, 1949-53
(millions of dollars)

	TOTAL COST	DOLLAR COST
Irrigation	44.3	28.7
Industry		
Cotton ginning, seed, soap, sugar (Kataghan)	3.7	1.1
Textiles	25.7	18.2
Cement and brick	5.6	4.5
Foundry and machine shop	1.2	1.0
Coal and other mining	7.0	5.5
Hydroelectric power	9.0	5.0
Road building	—	—
Transportation services	3.5	2.5
Telecommunications	14.0	7.8
Engineering surveys	4.0	4.0
	<u>118.0</u>	<u>78.3</u>

SOURCE: "Economic Report", prepared by the Mission, February 1949, pp. 15, 17, 94, 99.

But the Bank felt differently. In rejecting a commitment of even \$55 million the Bank was guided by several considerations. It questioned the capacity of Afghan production to expand and feared inflationary pressures; it viewed foreign exchange prospects as bleak, particularly because of a weak karakul market; and it regarded the Afghan proposal as too similar to a "lump sum" arrangement. Afghan reaction to the first rejection in May, 1949, was one of bitter disappointment. To meet the Bank's wishes several less essential projects were withdrawn. But in June the Bank also rejected a revised \$42 million request, hinting at a loan ceiling of \$22-25 million, thus offering little chance that any major industrial projects would be included in the final loan—if any loan was forthcoming at all. Meanwhile, Afghan funds for paying M-K dwindled. The Moscow radio reported gleefully that because of slow progress the Afghan government was considering cancellation of the M-K contract.

Since the Bank was particularly concerned over the precarious grain supply and its effect on the country's foreign exchange position, the expansion of wheat acreage seemed to demand top priority. For this reason, and despite Afghan skepticism of the "piecemeal" approach, it recommended only scaled-down agricultural projects in the Helmand and Arghandab valleys whose total cost would just fit within the ceiling set by the Bank. Thus, having overcome additional minor doubts and overruling certain reservations of its own staff, the Bank's Board of Directors on November 23, 1949, finally approved a \$21 million credit (with repayments beginning six and a half years after agreement and running for a maximum of nine years) equal to the gross dollar require-

ments of the Arghandab project and an initial phase of the Helmand Valley projects.

In arriving at its \$21 million credit, the Bank was guided by these major considerations: the maximum amount of the debt-service burden the Afghan balance of payments could absorb over the average repayment period the Bank had been granting for loans of this kind; and the amount of investment which could make the greatest contribution to eliminate the intermittent food deficit in the Afghan economy. Moreover, political and economic factors had finally asserted themselves. In the first place, the loan was not granted primarily to cover a balance of payments deficit, but rather to increase the total resources available for economic development and essential social services. Secondly, the Bank was not unaware that American prestige was linked with continuation of M-K's work.

Cumbersome negotiations of a new construction contract with M-K and other administrative and political delays postponed the start of disbursements until March 1951. It took over two years to negotiate and consummate the first U.S. credit to Afghanistan. Over the following years the Bank's economic and engineering staff visited the country and made concrete suggestions about necessary technical and organizational improvements. The Bank was in favor of the formation of a Helmand Valley Authority but it warned about the "strong possibility that ministerial and political problems might develop" because of the large size of the operations. It was feared that the new authority would draw staff away from the regular government agencies and thus further weaken them.

Economic benefits of this first loan were largely confined to the Arghandab Valley area where the regulated river water made possible the more efficient use of the old hand-built distribution canals and, of course, increased the summer water supply. But in the newly opened lands along the Boghra canal and in the Helmand Valley in the Girishk area, summer water was promised for the first time since Genghis Khan destroyed the earlier structures, and technical assistance was badly needed. Net foreign exchange earnings, of primary concern to the Bank, had been earned only on the Arghandab investment (through increased fruit exports). Additional earnings from the modest crop increase elsewhere in the Helmand area were nowhere in sight. Moreover, the Bank's credit line soon neared exhaustion. Furthermore, normal export earnings had yielded only 87 million afghanis surplus in 1952/53 compared with 200 million afghanis the year before. Internal monetary expansion had set off inflationary pressures. The Central Bank had to dig into its exchange reserve to pay for government exchange needs, leaving a net disposable reserve position of only 32 million afghanis in March 1953. This was the stage for the second loan application.

THE SECOND EXPORT-IMPORT BANK LOAN

Four aspects of this application were significant in the context of competitive coexistence. First, the Afghan government asked for much more lenient loan terms than it had requested in the 1949 application (40-year

amortization for the agricultural projects, and 30 years for the power project). Second, hopes for net exchange earnings outside the Arghandab fruit-growing area were, in the writer's opinion, not fully justified, and thus cast at least some doubt on the economic priority of the Helmand Valley project. Third, not all the dollars requested were allocated to specific projects because the Afghan government had not been able to determine the most vital ones among the numerous investment opportunities. The government desired a lump sum commitment so that it could determine the priorities more in line with available resources. Fourth, the request recognized the fact that to some extent the selection of the new projects had been influenced by certain political factors rather than by strictly economic criteria. This applied particularly to the Kabul road-paving program which the government believed would have a salutary effect on the morale of the people and business in general.

On all these counts, the Russian credits—to be discussed later—gave the Afghans far more satisfaction than did either the first or second U.S. loan. In January 1953, when none of the later Russian credits were as yet in sight, the Afghan government had placed its finger on deeply felt needs. To satisfy them at that time would have required a more flexible approach by the Bank. Instead, action on the new application was postponed pending a new appraisal of the first loan. As a result, M-K had to proceed with curtailment of its activities and the reduction of its labor force, beginning with the third quarter of 1953. In November 1953 to stem the inevitable reduction of construction activity, Afghanistan requested a lump sum \$36 million loan for financing the continuation of the Helmand and Arghandab Valley work, highway construction in Kabul and elsewhere, and hydroelectric power installations as well as numerous agricultural and other projects.

After further surveys by the Bank's staff and by ICA, the Bank granted in April 1954 a second loan of \$18.5 million, half of the amount requested. Among the projects dropped was the Kabul street-paving project, which was excluded on the ground that it had no economic merits. It was subsequently financed and undertaken by the Russians, and became a prime success for them. The new projects, financed by American funds, included new irrigation facilities in both areas, a highway maintenance program, the hydroelectric power installations, and certain interproject roads.

The most important concession to the Afghans was the change in the repayment terms. Although the interest rate was raised from $3\frac{1}{2}$ to $4\frac{1}{2}$ percent, the amortization period was doubled to 18 years, beginning with 1958 and including a 4-year grace period. The much tighter terms of the first loan were brought into conformity with the terms of the new loan. But 18 years was still shorter than the later Russian loan retirement period.¹ Another important change was the transferability of funds from one category of projects to another—which could be made with the approval of both parties. This was the nearest approximation to a lump sum loan the Bank saw fit to concede.

Work under the new loan, including a third contract with M-K, was delayed for nearly a year. Afghan misgivings about the Helmand Valley project (serious thought was given to assigning the program to Czechoslovakians or to

Russians), the Pakistan border crisis, and unforeseen cost increases plagued execution of the work. The new estimated cost of the work covered by the loan was \$7.2 million in excess of the loan funds available. The Helmand Valley Authority, unable to meet a semi-hostile Cabinet with an incomplete program, expressed its determination to go through with the project without assurance of additional dollar funds from anybody.

By December 1957, only \$1.2 million of the second loan funds were left to the credit of the Afghan government. The accomplishments in terms of completed structures were two diversion dams, 50 miles of new canals, power generating installations and laborious land preparation. However, several of these achievements, upon inspection by the Tudor Mission and other observers, proved of doubtful value. For example, the unexpectedly costly construction of the Tarnak Canal, where the estimates used in the second Export-Import Bank loan application had to be made without engineering plans, left insufficient funds for the irrigation and drainage system which were to serve it. As a result, part of the work on irrigation had to be postponed. Important factors in this case appear to have been the programing and estimating of work ahead of engineering planning; estimates of the water supply predicated on few years of river flow records and quantity and quality of irrigable acreage; and the inability to estimate in advance the cost increase arising from unanticipated delays. Additional foreign exchange appeared to be needed to correct the deficiencies and to put all projects on a paying basis. But the Bank had reached the limits of the resources it was willing to risk in Afghanistan. The rest was up to the Afghan government—as provided for in the credit agreements with the Bank.

THE ROLE OF ICA

Meanwhile, ICA's interest in helping the government in the Helmand Valley had grown thanks to new international developments. It should be noted here that the extension of U.S. aid to Afghanistan from sources other than the Export-Import Bank was heavily influenced by two external developments: growing U.S. financial assistance to Afghanistan's neighbors; and the growing interest of West Germany and the Soviet Union in Afghan economic affairs.

Afghanistan resented the amount and kinds of economic aid given to Pakistan. In the three years ending June 1954 Afghanistan had received, in addition to technical assistance, only \$2.6 million worth of grain, half of it against a dollar credit. In that same period Pakistan had received \$97 million of grain (\$30 million from ICA; \$67 million under P.L. 77) and \$37 million of development assistance (fertilizers, iron and steel materials, construction, mining and conveying equipment, industrial machinery, and railway equipment). Afghan government officials were convinced their country could qualify on the basis of the same economic and physical criteria clearly spelled out in the Mutual Security Program presented to Congress that year. Similar large-scale aid was given to Iran. Afghanistan thus was impressed by the greater generosity of American terms for the Afghan neighbors. Much of the aid was grants. The loan to Iran was for 22 years at 3 percent, and to Pakistan for 36 years

at 3 percent. Pakistan could choose to repay in local currency for only 1 percent additional interest.

Despite the pronounced pro-American views of the pre-1953 Prime Minister and the continuation of all cultural and business relations with the United States, Afghan leaders could not but resent the by-passing of their country in the emerging U.S. strategy. Disparities in population and degree of need for aid between Iran, Pakistan, and Afghanistan were overshadowed by the realization that, although neutrality in the cold war had not officially been declared a barrier to foreign aid (for example, India), Afghanistan had failed to qualify for U.S. aid under the Mutual Security Program for political reasons.

Until 1953, ICA operations in Afghanistan were modest. As a result much of the favorable reception towards the first Soviet Bloc aid agreement signed early in 1954, related to the limited scope of the ICA programs up to that time. As of spring 1954 ICA had obligated \$6.2 million for technical assistance, wheat loans and grants, of which it had spent \$4.7 million. Technical assistance was concentrated in the provision of agricultural experts, foreign study for Afghans, vocational and general education facilities, and teacher training. In Fiscal Year 1955 Congress authorized development assistance generally but Afghanistan itself was by-passed, perhaps because of border troubles, perhaps because of the difficulties in spending even the Export-Import Bank loans.

On June 29, 1956 Afghanistan was finally extended its first development assistance which was badly needed to meet some urgent economic needs—an international airport, trained personnel to assume responsibility for the completed parts of the Helmand project, and development funds to supplement Afghan funds drained off into the Helmand program. Of the first \$15.3 million, \$10.3 was a grant, the rest a long-term loan. Half a million was to be spent by M-K in the Helmand Valley, the rest for an international airport at Kandahar. Of the technical assistance budget (raised to \$3 million from the \$1.9 million of 1955) \$200,000 went for the Kabul educational program, \$500,000 for a new advisory group in the Ministry of Finance, and \$250,000 for renting and piloting airplanes to carry pilgrims to Mecca. For Fiscal Year 1957, \$11.4 million was obligated for development, with about half in the form of loans. With expenditures running well behind obligations, amounts obligated for development in Fiscal Year 1958 totaled about \$5.2 million, all in the form of grants.

The Fiscal 1957 program, besides giving the Helmand Valley a boost, added new projects which reflected Washington's determination not to throw in the sponge over the issue of neutralism and competitive coexistence. Among the projects was the highly successful airline-support program. A new feature of the 1958 program was the effort to eliminate the transit and transportation bottleneck. ICA supported the recommendations of an American transportation survey team: the investment of \$26 million (\$7 million of it in Pakistan) for a Karachi free zone with bonded warehouse and rail-loading platform and extension to the Afghan border of the rail line ending at Chaman; a further extension of the Chaman rail line to the Afghan customs

station at Spin-Baldak; and paving the road to Kandahar and rebuilding one lane of the Kandahar-Kabul road. The 1959 program further strengthened the air transport program.

The significance of these increases was in the category of development assistance—a sign of the urgency of the program. Allocations other than for the Helmand Valley included aid offers in coal mining (\$1 million) and motor vehicle transport, public works (roads) and education—about \$2.5 million each. Summary data by type of project of ICA operations through Fiscal Year 1959 appear in Table III-2.

TABLE III-2
ICA ASSISTANCE: * ALLOCATIONS 1952-59
(millions of dollars)

Helmand Valley development	10.4
Agriculture and rural development	1.5
Mineral resources and coal production	1.4
Surface transportation	24.4
Air transportation	27.0
Architectural and engineering services	1.5
Industry and power	3.2
Education	8.3
Public administration	1.2
Program support	3.3
Total	82.6

*Including Asian Economic Development Fund and Technical Assistance.

SOURCES: *What ICA Is Doing in Afghanistan*, Department of State Publication 6671, February 1959, Washington, D.C., and ICA files.

ICA funds were also used in one area where there should have been an immediate impact on public opinion—in contrast to the long-term projects described. Beginning in 1953 with a loan of \$1.5 million to buy 10,000 tons of bread grains, the U.S. government provided aggregate funds through Fiscal Year 1959 of \$25.8 million for 150,000 tons of wheat (see Table III-3).

Wheat deliveries, by relieving a bad shortage, did hold down the price of bread and flour, but did not leave a tangible imprint on Afghan public opinion. Many saw in these deliveries a scheme enabling the United States to relieve itself of a burdensome surplus. Deliveries were further overshadowed by the fact that they were being stored in the Soviet-built silos. And whatever extra publicity was given to the U.S. part of the arrangement, it seemed addressed to the local wheat speculators and consumers (to deflate price quotations) rather than to spread the word about the good work of the United States to Afghans generally.

TABLE III-3
U.S. WHEAT AID, 1952-59

YEAR AND TYPE OF FINANCING	TONS	AMOUNT AUTHORIZED* (THOUSANDS OF DOLLARS)	AMOUNT EXPENDED*
1952/53—U.S. dollar loan	10,000	1,500	1,434
1953/54—Sale under Sec. 550	10,555	1,215	1,171
1956/57—Grant under PL 480-II	40,000	7,150	6,747
1957/58—Grant under PL 480-II	40,000	6,500	6,082
1958/59—Grant under PL 480-II	50,000	9,400	n.a.

* Dollar values refer to cost to Commodity Credit Corporation, rather than market value.

SOURCE: ICA, Operations Reports and ICA Office, Kabul.

AN APPRAISAL OF ICA OPERATIONS IN AFGHANISTAN

The result of the boost in allocations since 1956 was a drastic advance in the rate of quarterly expenditures, while the Soviet projects under the \$100 million credit—to be discussed later—were still in the drawing-board and cost-estimate stage. Also toward the close of 1957, ICA had at last laid the groundwork for effective technical assistance in the Helmand Valley. The principal achievement was the viewing of the Helmand program as a whole, with a proper phasing of construction, land development, training, and agricultural experimentation. The continuously vexing problem was the lack of adequate numbers of trained Afghans to work with Americans, as well as ICA's inability to furnish the necessary technicians for the Helmand Valley. In addition, there were problems of ICA administration between ICA/Helmand and ICA/Kabul on the one hand, as well as between ICA/Kabul and ICA/Washington on the other.

Conflicting engineering designs and opinions about the organization of a Department of Civil Aviation delayed the signing of a contract with M-K for the building of a Kandahar airport until September 1957—over a year after the funds had been provided. Two DC-4 aircraft were delivered in June 1957 and immediately started flying pilgrims to Mecca. A training program started with 100 students and the new Afghan Air Authority was set up in a new office building. The climax was Pan American Airway's purchase of \$400,000 shares in Aryana Airlines, and its putting the Afghan national airline on an efficient operating basis. Although airline connections existed previously, the establishment of a national airline has climaxed the Afghan dream of regular air links to the outside world.

As for education, the number of subprograms taken on by ICA seemed overwhelming from the point of view of Afghanistan: in the Afghan Institute of Technology; in vocational agricultural training; in general teacher training at the Faculty of Agriculture and Engineering; and in university administration.

The highest hurdle remained ahead—the proper utilization by the government of young Afghans educated in modern ways.

Assistance in mining, with the longest history of any U.S. project, was bringing tangible improvement, although by no means all that was needed. Among other things favoritism, preoccupation with administration and accommodations hampered the efforts of U.S. trained operators and ICA technicians. By late 1957 Czechoslovakian advisers were approaching the Minister of Mines.

In the area of surface transportation, ICA had a mixed record as of mid-1959. The important aspect was that the U.S. government had finally recognized the economic and psychological importance of roads, vehicles, and airports. M-K's past performance in road-building augured well for new U.S. projects. Of greatest portent was the regional transit project which ICA underwrote—a survey of needs for and the best means of forging a safe link between the nearest Pakistan port and Kandahar. The United States had finally decided to tackle this difficult and politically delicate task instead of leaving it solely to the two governments involved.

However, program direction and support continued to be difficult because of delayed budget approvals in Washington and the inability to obtain project agreements with the Afghans on the basis of the approved budgets within the fiscal year to which the budget pertained. More vexatious were the seemingly infinite delays in getting designs and contracts approved by the many principals involved. The division of labor between ICA and M-K had led to friction in the U.S. camp.

AFGHAN VIEWS OF THE ICA PROGRAM

In the first place, the Afghans hoped the ICA program would help remove the most serious bottlenecks to development through combined capital and technical aid, thus catalyzing a self-sustaining process of economic growth. Not until 1956 did the aid money start to fill wider needs and begin to spread the benefits of past aid efforts. Only after the 1956-59 commitments will have come through can the quality of the effort and its effect on self-sustaining growth activities be measured. In the second place, enlightened Afghan officials hoped the aid would incidentally strengthen the political forces and techniques in the country which might lead to an eventual democratic political evolution, giving young and ambitious Afghan leaders an increase in authority to promote change. Despite some earlier success in this respect, by 1958 there had been very little ideological impact, except for the pockets of liberalism at the University and the Ministry of Education. A mixture of publicly owned or controlled economy and Asian nationalism outweighed American ideological influence and provided a fertile soil for anti-American sentiments, at least among some political leaders and higher government officials including the Prime Minister.

A third hope was the developing of closer and wider contacts between U.S. and Afghan institutions and persons, particularly permanent and self-

sustaining relations between Afghan and U.S. institutions of higher learning. At the end of 1958—admittedly too early for final judgment—all contracts with U.S. universities and all grants were still handled as part of intergovernmental programs.

Where Afghan institutions have gone out on their own to hire teachers or place students, they have preferred Europe—especially Germany, Switzerland, and France. This is not just a matter of cost. The standard of living of American technicians living in Afghanistan had to be at a relatively high level in order to attract them. But Afghans in all walks of life mistook this to be a reflection of the average cost of living in the United States. The fact that American professors, school teachers, government clerks, and private white collar workers live on a somewhat lower relative plane at home than do ICA appointees in Kabul or Kandahar was scarcely recognized. The depressing result has been the creation of a myth, which U.S. exhibits of fancy consumer gadgets have not helped to correct. It has created a barrier to close contacts, a truly artificial one, but nevertheless effective in the minds of the Afghans who otherwise might be seriously interested in establishing or maintaining contact with American institutions and ways of life.

EVALUATION OF U.S. FINANCIAL ASSISTANCE

U.S. financial aid, excluding wheat aid and technical assistance, totaled \$105.8 million dollars, if measured by the commitments entered into as of June 1959 (see Table V-1). Of this amount \$48 million was earmarked for the Helmand Valley. Rightly or wrongly, the development of the Helmand Valley resources has been identified as an American program so that Afghans look upon its rate of progress and results as a test of the effectiveness of American economic aid. But the significance of the Helmand Valley program actually goes beyond that, for the total governmental expenditures in the Valley have from 1953-57 averaged about one fifth of Afghanistan's total government budgeted expenditures for all purposes, and from 50-75 percent of the development budget expenditures. For two reasons, then—the American interest involved and the large commitment of Afghan government funds—the outcome of this project is of great significance.

EVALUATION OF AID TO THE HELMAND PROGRAM

In the hurry to get new projects under way, the seriousness of the lack of initial surveying became increasingly evident. Yet, insistence on preliminary surveys either by M-K at the very beginning or by the Export-Import Bank later on might have had an unhappy effect on U.S.-Afghan relations. Accordingly, perhaps the lack of insistence was politically, if not economically, justified. But in one respect the uncertainty of insufficient surveying might have been avoided. Instead of being dispersed over 20 or more projects before 1949, development efforts could have been confined to the original contract projects and related extensions—above all, the surveying of Helmand land and water use along the Boghra Canal.

If the Bank had worked out cooperative programs with the U.S. and UN technical assistance missions earlier, its loan might have been the catalyst needed to start more careful surveying. Such activity would have required a drastic revision in the Bank's approach to financing development in backward areas. Both the legislation setting up the Bank and its previous experience had confined its activity to the management of portfolio loans. It could not easily have switched to the approach of a "direct" investor who helps supply the skills and, as part owner, actually supervises the project. In the early stages of the loan such activity might have exposed the Bank to criticisms of interventionism. But, looking back, it appears as if the need for such intervention might have justified taking the chance of such criticisms.

It can safely be stated, however, that the Helmand project would have fared much worse had it not been for U.S. financial assistance buttressed by advice and training. The controlled water supply increased the cultivated acreage in the valley; yields on old land grew because of the stabilized water supply which also allowed for double cropping. As regards public revenue, the rate of growth in the Valley was about the same as for the country as a whole; export proceeds increased with the higher output of fresh and dried fruit produced in the Arghandab Valley;² and, of course, there were intangible benefits in training and organization.

THE LOST OPPORTUNITY: INDUSTRIAL PROGRESS

The initial decision to support only agricultural projects reflected the Bank's concern over Afghanistan's pressing food problem. Was that decision justified at the time and vindicated subsequently?

Despite promise of exchange savings stemming from the initiation of some industrial projects in the north it seemed to the Bank that expensive agricultural investment in the southwest had been a political necessity, internally and externally. As a test of successful cooperation between the West and Afghanistan, not only did the completion of the work started by the American contractor under somewhat unfortunate circumstances call for support, but the gamble on the uncharted agricultural resources of the southwest seemed justified, in retrospect, if it could open the way (1) to a permanent increase in the country's food supply; (2) to the settlement of a portion of the wandering nomads looking for a more stable livelihood; and (3) to the exploitation of the easily accessible export markets in nearby Pakistan.

Nevertheless the Bank might have financed equipment for small industries supplementing the Helmand-Arghandab agricultural program—for instance, hand looms for cottage industry, and mechanical spindles for the Textile Company—and thus cut the need for imported textiles. Inexpensive short-term projects like these, along with the longer-term reclamation investments, might have added up to more money than the Bank considered it wise to lend. But the larger sum might have carried a lower risk factor for every dollar committed than did the smaller sum.

It must be recognized, however, that the Bank's financing of agricultural programs had a substitution effect in the supply of foreign exchange. For example, the Central Bank, relieved of exchange expenditures for the agricultural programs, could sell \$11.5 million in foreign currencies for industrial projects during 1950 and 1951, more than 10 times the amount sold for such purposes in 1949. But by not directly financing any part of the industrial program, the Bank had by-passed a good opportunity to earn some public recognition among Afghans for promoting quickly maturing investments to which it did contribute indirectly, if unwittingly.³

ESTIMATES OF AFGHANISTAN'S REPAYMENT ABILITY

Since the Export-Import Bank recognized in 1954 that Helmand earnings could not possibly meet the terms of the original loan, it is surprising that the renegotiation of the first loan terms at the time of the second loan ended up with a heavier rather than a lighter burden for the Afghans. The lower amortization payment was outweighed by the higher annual interest payment.

In its subsequent efforts to appraise the country's repayment ability, the Bank was guided only by the karakul earnings and the country's persistently positive dollar trade balance. It did not consider three important aspects of the country's development program: first, that investment created new employment at higher wages leading to increased demands for consumer imports which would need foreign exchange; second, that the increased demands on domestic industries would in turn create needs for foreign repair parts and supplies, thereby draining foreign exchange; and third, that the ambitious five-year plan would have effects on the over-all trade balance not revealed by a study of the dollar balance alone.

The Bank's own ceiling on loans of 18 to 20 years seemed out of line for projects in reclamation and irrigation, which normally require 40 years to pay out in the United States. And repayment terms should consider not only the projects financed but also the country's over-all investment program and exchange budget. Here, too, greater flexibility was called for.⁴

THE POLITICAL DYNAMICS OF LENDING MONEY

U.S. financial aid had a strong impact on the power positions of two rival groups—the ruling dynasty and the private investment group. In a country where effective political power is divided between two groups only, economic support from abroad must be equally polarized or it will change the internal balance of power. Foreign financial aid for a development project, particularly from a country whose technological and economic achievements had earned much respect in the Middle East, bore on the political and social power of the groups directly benefiting. Thus, a decision to lend money to Afghanistan was also a decision to lend political support to the borrower, whether or not this effect was intended by the lender.

A loan confined to public works projects could only strengthen the position of the government and the group running it. Rejection of the industrial projects meant denial of recognition to a private group that could effectively preach and carry out a private enterprise and development philosophy free from political bias. Under the circumstances prevailing in Afghanistan, this might have been one more reason for the Bank to accept at least one major industrial project for financing. Closer cooperation with the Department of State and U.S. Embassy officials in Kabul might have given Bank officials the necessary political insight. The result would probably have been not only a quicker dollar return but also a more balanced distribution of indirect political "support" between the rival groups.

In this respect, ICA's reinforcement of the Bank's aid changed little. Perhaps the support given to the power supply in the Kandahar area promised some encouragement to local industry. But basically the U.S. programs have remained pillars for government projects. This policy was crowned by the 1957 \$14.7 million civil aviation project. Against Congressional criticism ICA defended this project not only on economic grounds but also on the ground that it has enabled the government to strengthen its internal political cohesion "in a manner similar to the experience in Latin America."⁵

THE UNITED NATIONS AND WEST GERMANY

UNITED NATIONS TECHNICAL ASSISTANCE

Administrative and organizational efforts hampered early UN technical assistance efforts in Afghanistan. Moreover, with U.S. programs serving as the major complement to the UN projects, due to the heavy commitment of U.S. interests in Afghanistan, the UN proceeded cautiously, so as to avoid potential charges—particularly by the USSR—of U.S. domination of its activities.

Nevertheless, from 1950 onwards, the UN and its Specialized Agencies have brought into Afghanistan about 250 experts (through September 1958) from 35 countries. In turn 170 Afghans have been sent to 30 countries for study and practical training. The total cost of this program has been estimated at \$4 million, thus making Afghanistan the fourth highest recipient of UN technical aid on a per capita basis.

In due course, UN work resulted in scattered areas of success—particularly in the agricultural and health fields. It launched a karakul breeding program, conducted a campaign against rinderpest, and introduced better crop strains. It made gains in the fight against malaria and VD and promoted better child and maternal care. It succeeded in promoting the establishment of a Helmand Valley Authority. In 1957, the UN furnished an economic analyst from the International Monetary Fund to review the basic statistics of the economy; this led to more realistic projections on the part of the Ministry of Planning.

In other fields achievements were more limited. Work in sugar-beet processing was stymied by red tape. Aid to education similarly lacked the proper coordinating role of the Afghan government. UN assistance in oil drilling on the northern frontier was successfully frustrated by Soviet objections. In general, UN teams were successful in using pilot operations to demonstrate the economic potential of new technology or of improvements grafted upon old ones. The prime example is the introduction of better silkworm strains and mulberry trees. It remained for Afghan private or public enterprise to exploit and enlarge the experiments. UN experts seldom stayed long enough to aid and complete that process.⁶

THE GERMAN PROJECTS

Among the projects rejected by the Export-Import Bank was the expansion of cotton textile production which, as a share of domestic consumption, could be increased from about 20 percent to 65-70 percent on the basis of existing resources and labor, without fear of competition from India or Japan—or the Soviet Union.

The Minister of National Economy was more successful in West Germany than in Washington. In 1950 he obtained a five-year credit for half of the machinery—18,000 spindles and 1,400 looms, plus boilers, dyeing and finishing equipment as well as all the fiber-preparing machines. The mechanics of the arrangement were never fully revealed but the credit seems to have been in the form of ordinary bills of exchange whose maturity date was extended several times, either because of delivery or construction delays or temporary shortages of cash.

Construction started in 1952 and neared completion in December 1958. At that time half of the spindles were operating in well-designed air-conditioned halls. The looms were producing half their scheduled capacity of gray cloth, largely due to lagging raw cotton supply and lack of dyeing and finishing facilities. Visitors to the plant were impressed by the spacious arrangements, the lavish auxiliary buildings (a concrete mosque and family houses for employees), and a complete repair shop equipped with up-to-date German lathes, drilling and planing machines.

If switched to a two-shift operation, the plant was expected to produce 35 million meters, and to save a corresponding amount (roughly \$10 million) of imports. The corresponding reduction in raw cotton exports was estimated at no more than \$5 million, thus leaving a net saving of \$5 million a year. Afghan Textile Company officials have pointed to the irony of this constellation of circumstances: the investment in the textile industry, rejected by the U.S. government, will contribute the largest share of the foreign exchange savings needed to repay the U.S. loans for the Helmand Valley. The other side of the coin needs to be noted however: half of the foreign exchange needs of the textile project were met from exchange purchases which might not have become available for the textile project had not U.S. help in the Helmand Valley relieved the Central Bank of the necessity of setting exchange

aside for the Valley. Whether or not this argument is convincing, it was evident that the textile project was likely to generate more exchange savings during the U.S. loan amortization period than would the Helmand Valley projects. This impressed Afghan bank officials and earned the Germans a good reputation.

A second major German project also had failed to meet the U.S. criteria in the selection of projects. The new hydroelectric power station near Kabul was part of the original list of projects submitted to Washington in 1949 for financing. It was to produce 22,000 kilowatts and to cost \$14 million. Because transmission lines to Kabul and to the new textile factory had to be added to the original design and because of the general price rise in the industrial countries, the final foreign exchange cost was \$20 million. The construction took seven years, unduly extended because of intervening floods, trouble in delivery of equipment, etc. In May 1957, the station started supplying Kabul residents with adequate supplemental energy. There was enough power left over to feed new industries during the daytime hours.

Financing in Germany encountered difficulties because of the tight capital market. But short-term credit was obtained with re-insurance through the government-supported Hermes Company. A substantial portion of the exchange, especially for cement, construction materials, and petroleum products, was furnished by the Afghan Central Bank.

A visit to the plant several years ago revealed completely automatic operation of the various units, as modern as can be found in Germany. What had impressed Afghan government officials and ordinary citizens alike was the use of low capital-intensity construction methods compared with M-K techniques. However, a definitive comparative evaluation will have to take account of the time factor in construction techniques. Selection of the capital-intensive M-K technique might have saved three or more of the seven years. But what would have been the advantage of a saving in time if there was not enough foreign exchange to pay for it over such a short period of time?

The smallest German venture had perhaps the widest portent—the investment by Siemens of about \$150,000 in warehouse and repair installation. Since 1954, the major part of the invested funds has been absorbed by inventory and repair machinery. Business was so successful within the first two years that the company was considering an expansion of the existing facilities. Sales of goods and services are made against afghanis while the necessary exchange earnings are collected from the construction and equipment contracts with government and industry. The investment primarily helped Siemens imports into Afghanistan, but it indirectly helped to prepare the ground for the parent company's major objective, that is, to secure contracts for installation of industrial machinery and equipment. In this respect the company has had some success. Among the noteworthy projects have been telephone equipment, street lighting, and movie equipment. The sequence of equipment orders for German industry inaugurated with deliveries of cottonseed pressing and soap-making machinery in the north had a good chance of being continued.

Two significant developments in January 1958 paved the way for extended German participation in Afghan economic life. A new trade and payments agreement substituted nondiscriminatory import controls and payments in convertible currencies for the previous system of bilateral balancing of trade within the limits of specified commodity quotas. Concurrently, the German and Afghan governments entered into an economic and technical cooperation agreement providing for the supply of German teachers, experts, and consultants, as well as Afghan trainees in general engineering, industrial chemistry, geology, water resources, etc. Moreover, Germany promised to help expand export-oriented new industries. This German aid may total \$6 million.

NOTES

1. In recognition of the continuing exchange difficulties, the Bank, at the request of the Afghan government in August 1958, once more postponed the inception of the repayments from October 1958 to April 1961. Under these amended terms, the loans would be repaid by 1979, 30 years after the granting of the first EIB loan.
2. "The Helmand project is estimated to have produced for Afghanistan an additional gross income of \$10 million per year, and it is expected that this will increase annually in the next 7 or 8 years, a figure of some significance in a country whose people are fortunate to earn as much as \$35 a year." *Report to the Congress on the Mutual Security Program for the Six Months Ended June 30, 1958*, January 28, 1959, p. 34.
3. Such opportunities were finally taken in hand late in 1956 when work on the Boghra power project in the Helmand Valley started and in 1958 when the Arghandab power project was approved by ICA authorities.
4. Such flexibility was reflected in the Export-Import Bank's decision in August 1958 to postpone once more the beginning of the repayment of its loan by three years.
5. See Mutual Security Act of 1958, Hearings, Committee on Foreign Affairs, 85th Congress, Vol. 1, p. 846.
6. For a more detailed evaluation of UN projects, see Howard M. Teaf and Peter G. Franck (eds.), *Hands Across Frontiers*, Cornell University Press, 1955, Chapter I.

CHAPTER IV

SOVIET BLOC ECONOMIC AID PROGRAMS

FINANCIAL AID FROM THE SOVIET UNION

SOVIET BLOC CREDITS, 1954-59

Aside from the impact of U.S. aid to Afghanistan's neighbors the major external element which influenced the U.S. capital aid program to Afghanistan was the assistance the Soviet Union started giving in 1954—30 years after it had first promised help. The new Russian policy emerged in its December 1953 trade agreement with India with whom Afghan relations were warm, not least because of Indian support for Afghan claims against Pakistan.

Hardly was the ink dry on the 1953 Indian agreement, when the Afghan government announced a \$3.5 million Soviet credit to finance the construction of two grain elevators, a mechanized flour mill, and a bread-baking plant. The loan was to be repayable in commodities (wool, hides, cotton, and vegetable oil) in five years after the completion of the construction, set for 1956. The interest rate was 3 percent.

The Kabul bread factory and grain silo, when completed in 1956, were suited to meet military demands. Afghan civilians today still tend to prefer the flat loaves, traditionally baked on the inside walls of small ovens. The new bakery produces only the loaf type. Furthermore, by absorbing a substantial quantity of the perennially scarce wheat, it threatens to limit the production of the conventional bread. Over half of the 1957 production was destined for the army and other government installations. It is safe to conclude that in an emergency the government would control all wheat supply and allocate a maximum quantity to the new factory in order to control final distribution as well. The advantages of such an arrangement must have been obvious to anyone concerned with logistics. Here, then, Soviet aid was accepted to solve a special problem quickly, and terms may have mattered little. It can certainly be doubted that the U.S. government at that time would have financed this type of project. The irony was that these Russian silos and bread factory were going to use American wheat from 1956 on.

The second Soviet technical aid and credit agreement of \$1.2 million, signed in July 1954, covered the construction of a gasoline pipe line across the Oxus River—the Soviet-Afghan frontier—and at least three gasoline bulk storage plants. The third agreement, reached in August 1954, was a \$2.0 million credit covering street-paving and road-building equipment. These arrangements went far toward mitigating threats to construction progress arising from the conflict with Pakistan. What impressed Afghan observers from the time these projects were started was the speed and continuity of effort displayed

NOTE: The footnotes for this chapter will be found on page 66.

by the Russians. The four gasoline storage tanks were constructed on schedule. Being widely dispersed—near Kilift on the Oxus River, in Mazar-i-Sharif, Herat, and Kabul—they gave evidence to a large section of the Afghan population that Russians can work fast. Regularization of the supply and distribution of gasoline could henceforth be expected to have beneficial results for the economy whether or not the transit line across Pakistan was interrupted.

The fourth Bloc aid agreement, signed with Czechoslovakia in August 1954, involved a credit of \$5 million and opened a bottleneck of long standing, the supply of cement. Plans for the erection of a cement plant had been negotiated without success with German, American, and Czech firms for over 20 years. An important motivation for the Afghan Cement Company to go through with the Czechoslovakian deal was that M-K's engineers in 1950 had submitted cost estimates for such a plant which seemed much too high to the Afghans. The Czechoslovakian loan foresaw construction of three cement plants for about \$1.5 million each. The first was completed in 1958, with a capacity of 30,000 tons a year and at a cost of about \$2.5 million.

A glaring example of the dangers of high-speed planning and construction techniques used by the Bloc was provided by the first test operations at the new cement mill. Tests of the clinker revealed that the iron content of the clay was abnormally high, giving a much harder clinker than the crushers were designed for. The choice was either to order new crushers and thus add appreciably to depreciation costs or to haul in different materials from further afield. The nearest sources of "softer" clay and coal were on the other side of the Hindukush—where a private business group had selected the optimal location several years before.

The balance of this loan was to be used for leather-processing and fruit-processing machinery. The Afghans were to start repaying in 1957 and to complete the amortization in 8 years. Interest was 3 percent. Payment was to be in goods. Therefore, concurrently with the credit agreement, a four-year trade agreement was signed which envisaged Afghan delivery of cotton, wool, dried fruit, and oil seeds.

The closing of the Afghan frontier with Pakistan in March 1955 over the disputed tribal land in the border area gave the Soviet Bloc a new opportunity to make its economic potential felt. While all major construction projects, including the American projects, were threatened with a complete standstill, the Soviet government offered prompt delivery of diesel, gasoline, and cement to make up for the deficiency caused by the interrupted transit across Pakistan. These supplies were to be freely used on all projects, Russian or not. Concurrently, the Kabul street-paving project, rejected twice by the U.S. Export-Import Bank, got under way. The job was completed in a year.

All through the crisis of 1955, the United States kept publicly aloof from the conflict over the border area. Even in the matter of pushing supplies through to the "American projects", the U.S. government seemed to remain relatively passive, at least outwardly. But as a result of diplomatic pressure on Pakistan, it managed to get M-K's supplies exempted from the international

traffic ban; yet large consignments remained on sidetracks or were actually unloaded inside Pakistan.

This could not have escaped the attention of the Soviet leaders who were traveling through most of South Asia in the fall of 1955 spreading goodwill through capital assistance. During their stay in Kabul in December they gave the municipality 100 hospital beds and 15 buses (to run on the newly paved streets), and made the famous offer of a \$100 million credit for agricultural and industrial projects. The terms were as generous as those negotiated with the United States in regard to the wheat loan of 1953, and more generous than the Export-Import credits for the Helmand Valley.

Repayment was not to begin until 8 years after disbursements had started and was expected to end in the 30th year. Interest was 2 percent. Afghan goods acceptable in lieu of cash were to include wool, cotton, sesame oil, and hides. Three months later the details of the first projects to be financed from the \$100 million were agreed upon, subject to the condition that the projects would first be surveyed by Russian teams who would also prepare cost estimates.

Among the many projects the USSR declared itself ready to undertake, several were soon discarded as either too costly or otherwise impractical, for example, a fertilizer factory, a laboratory, a river navigation project and, above all, a second power plant and reservoir for Kabul. On the other hand, rapid surveying and construction progress was reported in mid-1959 for the following:

Completed: military airport in Baghram, north of Kabul; docking and warehousing facilities on the Oxus, and at intermittent stretches of the north-south route out of Kabul.

Under construction: Salang pass tunnel linking Kabul directly with the north; a second cement plant and power station north of the Hindukush mountains; irrigation canals in the eastern province.

By mid-1959, it was reliably estimated that \$56 million of the \$100 million credit had been spent.

Three months after working out the first details under the long-term Russian credit, a large mission negotiated an arms purchase deal in Czechoslovakia. Other Bloc arms credits are believed to have raised the total to over \$32 million, all of which presumably was spent by 1958.

The King's visit to Moscow in August 1957 ended with still another credit of \$15 million and a technical cooperation agreement with the Soviet government, this time aiming at oil prospecting and oil drilling in the northern provinces. The Russian credit was evidently designed to continue the work started earlier by Dutch and Swedish crews. Operations in the barren northern foothills had to begin from scratch because of the absence of any auxiliary industries or services. Aerial mapping of the entire northern region by Soviet planes and crews was to help in the oil-prospecting work.

Following the announcement of the bilateral military alliances between the United States and Pakistan and a visit by Foreign Minister Naim to Moscow, the standing economic cooperation agreement with the Soviets was further extended in 1959 to include reconstruction and enlargement of the Kabul airport with the guarantee that the work be completed in 18 months; and reconstruction of the north-west road link between Kushka in Turkmenistan and Herat and Kandahar in Afghanistan—a distance of about 415 miles. At a cost of \$80 million, the latter project emerged as the largest single Russian undertaking in Afghanistan. A mining railway track was being laid to bring building supplies to the construction sites. Plans include several new bridges previously assigned to an American contractor and an airport in Girishk in the heart of the Helmand Valley, until then the enclave of U.S. assistance work—both financial and technical.

The Afghan Foreign Minister in Kabul labeled this aid a Russian grant, without impact on the Afghan foreign debt position. Currency needs are to be covered by the sale of 40,000 tons of Russian wheat—the first wheat grant by the USSR to Afghanistan. Future projects being considered include a large dam across the Oxus, complete with power station and irrigation canal outlets.

In summary, the aid agreements with the Soviet Bloc between January 1954 and June 1959 authorized expenditures of about \$246 million (see Table IV-1).

TABLE IV-1
SOVIET FINANCIAL AID TO AFGHANISTAN AS OF JUNE 1959
(millions of dollars)

PURPOSE OF LOAN	DATE OF AUTHORIZATION	AUTHORIZED LOAN
1. Grain silos, bakery and flour mill	January 1954	3.5
2. Gasoline storage tanks and pipelines	July 1954	1.2
3. Road building equipment	August 1954	2.0
4. Cement and other industrial plants (Czechoslovakia)	August 1954	5.0
5. Asphalt plant and paving machines, etc.	May 1955	2.1
6. Industrial, power and irrigation, road, airport projects	December 1955	100.0
7. Arms and ammunition (Soviet Bloc)	July 1956	32.4
8. Oil drilling, exploration and trans- portation equipment	August 1957	15.0
9. Highway construction	May 1959	80.0
10. Port development and wheat	May 1959	5.0
Total		246.2

SOURCE: ICA, and Afghan Ministries.

EXPERIENCE WITH SOME COMPLETED CONSTRUCTION

The completed projects have on the whole done credit to the Soviet Union and its satellites. First, the outlook for the first cement plant, already mentioned, was clouded by serious worries as to the adequacy of the coal production, since a second plant was now scheduled as well. But these aspects did not detract seriously from the imposing achievement that finally, after a decade of fumbling with U.S. and German projects, a plant was turning the mountain of clay behind the plant into Afghan cement. With the high price of foreign cement draining the country of \$25 for every ton imported, the plant was expected to earn back in three years the \$2 million it cost.

Second, the new gasoline storage plants in Herat, Mazar-i-Sharif, Kabul, and on the Oxus River assured the Afghans of a safe reserve of several million gallons of fuel. Their gleaming silver tanks, their neat arrangement within white-walled compounds, and their efficient operation had made a favorable impression.

Third, the combined wheat silo—flour mill—bread factory in Kabul was completed in two years at a cost of about \$3 million under the supervision of 30 engineers. The facilities are highly mechanized, featuring impressive systems of automatic control.¹ The maximum storage capacity of the silo is 20,000 tons and total baking capacity is 35 tons per day. By Afghan average market prices, the price of about 4.5¢ per pound (dollar equivalent) was cheap although, as pointed out earlier, this Western type of bread is not popular with many people in Afghanistan.

Afghans generally seemed satisfied with the performance of the silo. Only businessmen trained in Western accounting criticized the lack of "rentability" in this investment and were convinced that the foreign exchange spent on this project could have contributed much more to the over-all improvement of the country's economy if it had been spent, say, on irrigation installations in the north or a fruit cannery or packing plant in Kandahar.

The anomalous aspect of the Soviet silo remains the fact that there is generally not enough Afghan wheat available for government buyers to maintain the stipulated ceiling price for flour. A few years ago, Afghan wheat in the free market was selling for from 35 to 50 percent more than the government base price. There was evidence that thanks only to the low-priced U.S. wheat were the flour mill and bakery able to operate at the government ceiling price without an Afghan subsidy. It was no surprise, therefore, that in order to maintain supply at the ceiling price, the government in September 1957 made a request for 40,000 tons of wheat for 1958 and, subsequently, for 50,000 tons for 1959. Both were approved (see Chapter III).

And finally, the asphalt streets in the capital, the product of the asphalt plant outside the city, have been among the most striking accomplishments of the Soviet program. Since many of the side streets and the thoroughfares in the suburbs are still in their original state, any observer can make the obvious comparison between "before" and "after". Transportation inside Kabul

has for generations been tied up with clouds of dust in the summer and fall seas of mud caused by rain and snow in the winter. Notwithstanding a need for frequent repairs of the asphalt paving, the transformation of the major arteries into smooth and broad paved avenues was drastic.

The year 1959 was too early to allow the Afghans to test the durability of the Soviet work completed by then. But the general impression was that the Russians could build fast, were willing to carry out the projects the Afghans selected, and generally stayed away from projects which either took a long time to mature or reached deep into the nontechnological domain (such as education or the settlement of nomads). No data were available which would make possible an international cost comparison. And as long as the Russians prevented Western contractors from bidding on their designs, a comparison could never be made. Only businessmen seemed to be concerned over the advantage of competitive bidding between or within nations. Thus a major yardstick for testing the economic value of the completed Soviet projects has not become available.

It is worth noting that the Russians appear to have recognized the problem of high local currency requirements for aid projects. They reportedly offered in 1958 to make available \$15 million worth of consumer goods for sale in Afghanistan so that the proceeds could be used to meet the local currency requirements of various projects previously postponed. If this offer were accepted by the Afghans, the burden on their budget would be reduced commensurately—and a device well tested by ICA in other countries will have found its way into Afghanistan via Moscow.

EXPERIENCE WITH BLUEPRINTS

Experience with respect to Soviet blueprints has been more revealing on cost estimates than has been the experience with the completed projects. The Salang Pass, short cut through the Hindukush mountains, for example, had been surveyed and blueprinted by German engineers for \$80,000. The Russians did not accept the German engineers' findings and required \$350,000 for the same surveying job. A more striking example was the dam and hydro-electric station project. The Germans needed just 4 months and 6 men to make the survey. The Russian team of 36 men was 6 times as large and came to the same conclusions as the German team, but charged 6 times as much (\$600,000). Moreover, the cost forecast so far exceeded the Afghan and German estimates that the signing of a contract was put off indefinitely. The new Finance Minister who succeeded his unorthodox predecessor in July 1957 did not expect to have enough local currency to cover 40 percent of the cost in four years.

The reason for the higher cost of the surveying was evident from the job performance. Each of the Russian engineers was so highly specialized that he was able to handle only a narrow assignment. Since these projects covered a broad array of types of construction, the number of men necessary to complete the surveying job was necessarily much larger than if it had been

handled by more broadly trained men. This same factor also explained the relative youth of the Russian engineers on the job.

But the German competitors and Afghan employers were satisfied with the quality of the surveys; in fact, the blueprints for the Kabul airport (which took half the time the Americans took to blueprint the Kandahar airport) impressed the experts with their painstaking detail. And in June 1958 the Russians met the complaint about high survey costs by offering to make surveys for some unsurveyed projects free of charge.

EXPERIENCES WITH SOVIET TECHNICIANS AND EXPERTS

Unlike ICA technical assistance, Soviet technical assistance has not been free. Its cost has been charged to the credit covering the project in question. But a more striking difference is the much less demanding, uncomplicated, and short-term nature of Soviet technical assistance. Russians will do all the skilled jobs; only unskilled Afghan labor has been needed for Russian projects. This simplicity has been due partly to the nature of the Russian projects, partly to the difference in their approach from that of the United States. The Russians have not been concerned with complex tasks such as improving education and public administration. Nor have they been concerned, as has the United States, with training Afghans to take over all the jobs eventually.

But within the Soviet framework of immediately practical technical assistance there have been drawbacks. The narrowness of the training of Russian engineers was evidenced in the problem of repairing Russian diesel trucks. One man assigned to the job was helpless when confronted with the routine breakdown of an engine, and even more so when confronted with an unusual breakdown.

The Russians have also had cause for disappointment in the Afghan response to their technical assistance. Promised deliveries of local materials and an adequate labor force frequently have not materialized. Gradually they have become aware, as M-K did before, that to get the work done they frequently have to import more of their own men and supplies.

With the number of Russian and Czechoslovakian technicians and advisers having grown to 1,000, the question arose in 1959 as to what extent this influx of Communists bearing technical assistance might have political effects.

INTERNAL POLITICAL ASPECTS OF SOVIET TECHNICAL AID

From first-hand observation and interviews with the people directly concerned, this writer has gathered that Soviet training and teaching inside Afghanistan was strictly limited to shop problems. The narrow specialization of the technicians apparently resulted in the quick absorption by Afghan trainees of their "lessons", an observation which confirms that encountered by M-K in training Afghans in mechanical skills. Moreover, the lack of appropriate

education in the sciences in high school and the small size of the engineering faculty at Kabul University would necessarily limit the technical indoctrination to a narrow operational approach in a particular area of knowledge.

This type of indoctrination could not adequately prepare the Afghans for an understanding of the scientific basis of the new operations. They would therefore remain dependent on foreign instructors if anything fundamental went wrong with the new machines. They would have severe difficulty in comparing the technical merits of one chemical or technical process with another. This is why Afghan education officials are confronted with a new dilemma: how to increase the level of general technical training without increasing still further the number of Soviet technicians in the country.

The basic needs will be in airplane technology, in electrical engineering, combustion engines, soil and rock surveying, civil engineering, plant pathology and soil chemistry, petroleum drilling and crude oil treatment. In recognition of these needs, the first steps towards hiring of Soviet professors for the fledgling University were taken several years ago when the first professor of internal medicine was appointed from Russia, reportedly followed by another in the physical sciences. Also, as of mid-1959, the sending of Afghan students to Soviet universities had not yet materialized. But the possibility was not ruled out by officials. In connection with the oil-drilling operations scheduled to start in 1959, the sending of trainees to the oil fields in the Russian Fergana Valley was being discussed.

There have been practically no extracurricular contacts between the Soviet technicians and the Afghans. Orders have been given on both sides to avoid the discussion of economics, politics, and social problems. In fact, many Afghans have complained that the Russian visitors were so strict about this order that few would talk at all and then only about utterly innocuous subjects like weather and food. It should be noted that there seems to be greater contact between the Russians and the Afghan elite than the Afghan people. The Russians have tended to live by themselves, without fraternizing or otherwise mixing with their hosts. In the north, the Afghans interviewed about this matter have deliberately and clearly dissociated themselves from the Russian economic aid program which they considered an intergovernmental affair.

Convinced that natural and safe protection was provided against any ideological conversion, government officials have appeared quite sanguine about the possible consequences of closer contacts. For one thing, Islam and Afghan nationalism are deeply ingrained in the people. Several quote with fondness the tale about the message discovered on a Russian agent over a decade ago which reported to his superiors that the Afghans were simply too dumb to understand Marxism and Leninism. Certainly allegiance to the ruling tribe or Khan is stronger than any sense of economic class. Also, 95 percent of the technical and educational advisers hired abroad will probably be Western and 95 percent of the students going abroad are still being sent to Western countries. Political activity of any kind by foreign nationals is strictly illegal and will lead to prompt expulsion of any individual caught in the act. There are few social evils other than northern landlordism which could provide a seed-

bed for Communistic ideas. Thirty Afghans who were sent to Russia for air training under King Amanullah (in the twenties) never showed any sign of having been converted. Finally, the security police and intelligence units keep a close watch on every Russian, and each one of them has to return at the end of his contract. None has been allowed to renew his contract.

These protective devices and natural barriers do not seem to take account of a subtle influence which has already been acknowledged by higher government officials, including the Governor of one of the northern provinces: the impression which Soviet ways of working and living has left on Afghan observers. Russian technology is less advanced than the American in that it is based on far less mechanized construction techniques. This forces the Russians to use ingenuity and muscle power, given the skimpy material resources in a typical Afghan provincial town (no lumber, scrap steel, or wire, no repair services or parts, etc.). Their approach to technology is much like the Afghan one: since unskilled and semi-skilled manpower is plentiful, why "waste" money on fancy gadgets and burn up a lot of fuel for machines? This is borne out by what happened in the Soviet road construction projects in the north: much use of pick and shovel, and much material conveyance by hand instead of even wheelbarrow or pickup.

More significant perhaps are the differences in living conditions. In contrast to the "little Americas" which house ICA and M-K staffers, many Russian experts live in much simpler quarters, some almost crude by American standards. No air-conditioning, no refrigerators or washing machines, just primitive electric equipment adorns these quarters. Most Soviet technicians live in hotels frequented by their Afghan counterparts and which are far from fancy. Food is ample but includes no equivalents of the canned vegetables and plentiful varieties of imported U.S. canned meat. Sanitation facilities are almost primitive. Many of the hotels are cold in winter. At projects farther afield, Soviet engineers live in tents and share Afghan village diets.

All this has assumed political significance for many Afghans because American standards of living are not only conspicuous but conspicuously high. The average Afghan does not note the fact that the upkeep of the Americans on ICA projects is paid out of ICA grant funds while all Soviet aid is paid for out of credit, repayable by the Afghan government (as is the cost of M-K's employees). The most sensitive observers are higher government officials and intellectuals who see in this great difference between cost and ways of living a cultural gap, if not an unbridgeable barrier which they expect to last as long as Afghanistan does not have the resources to afford the American way.

There has been a radical difference between the reactions of government officials and those of the business group to Russian technical aid, and for good reasons. Part of this difference was due to the ideological predisposition of the two groups, and part to the expected economic impact of the aid programs. The business group was unlikely to benefit directly from the projects aided by the Russians, since, in the nature of dealings with the Soviet Bloc, all such projects were government-controlled. Thus, the government sector was expected to expand in relation to the business sector, unless the

latter received matching aid from other sources. The Bank-e-Millie business group could justly point to the cement, Sarobie electric power, and cotton ginning projects, in which the initial relatively modest role of the government was soon converted into the dominant part, giving it a decisive share in the allocation of cotton, cement, and power. More of this trend had to be expected with the oncoming of larger Russian aid projects negotiated on an intergovernmental plane.

The government's acceptance of so many Russian experts is frequently criticized in informal conversation—even by some otherwise devoted government employees. Nevertheless, the evident, tangible Russian accomplishments are appreciated—such as new roads and gasoline storage depots, which combine to make transportation more reliable and cheaper. And the Russian commands respect because he represents the only Asian country which has successfully changed a feudal land system into a balanced agricultural-industrial system. He is respected because he sticks to his job, a little sullenly but devotedly.

RUSSIAN MOTIVATION IN RENDERING TECHNICAL ASSISTANCE

Some Western observers express concern over what they consider the monumental nature of Russian achievements and their blueprints for future projects. It appears to them that the Russians agree to Afghan wishes with an eye to gaining popularity rather than with regard for the most economical use of local resources. Three examples serve to assess Russian achievements: the grain silo with flour mill and bakery; the paving of the Kabul streets; and the roads to the north.

The silo is a dazzling piece of Russian architecture demonstrating Russian advances in the rapid construction techniques used. The highly mechanized operations of conveying materials, cleaning, grinding, sorting, and baking are far above anything the Afghans have ever seen, even though, technologically, it is no different from the American or German power installations at Girishk and Sarobie which use the most modern devices, including electronic equipment and automatic controls.

As to economic rationality, the silo and bakery are helping to solve a serious economic problem by providing storage facilities to tide the country over poor crop years. Now with a large wheat and flour stock in the hands of a nonspeculative government-controlled agency, wild price manipulations and gyrations can be avoided. Also, the bakery plays a vital part in the regularization of the market. It permits the government to sell bread for immediate consumption instead of flour and wheat which can be resold on the black market.

The most serious criticism which can be leveled against this Russian installation is its low priority relative to, for instance, increasing the agricultural production capacity, rebuilding bridges on the vital road to Herat, or modernizing the woolen textile mills in Kandahar. But, here again, overriding

social and political objectives need to be considered in addition to strictly economic criteria. In a country where a faulty distribution system has frequently kept the benefits of production capacity from reaching the people, a radical, if expensive, change in the distribution set-up may well be more important than long-maturing productive investments. Certainly the changed distribution has brought tangible market improvements and ensured fair marketing of American wheat. At any rate, as the writer learned from Soviet sources, the Afghan Prime Minister insisted on the silo and bakery. This in itself was an overriding consideration.

The Kabul street-paving project, first proposed to the Export-Import Bank in 1953, was designed primarily to facilitate and speed up communications within the city. It was not intended to serve primarily development objectives. But as an editorial in the semi-official *Islah* pointed out on July 3, 1957, Afghans view construction as an end in itself when it creates a happy spirit in which work can flourish. As the saying goes, "Man cannot live by abstract logic alone." Moreover, the psychological value of the street-paving was tremendous since hundreds of thousands of nomads walking through the city every spring and fall can sample and appreciate the substantial improvements their government is carrying out. This has served to instill in the people a feeling of participation in the costly development program. The revolutionary transformation of the Kabul transport facilities, accomplished by asphalt and buses, could not have failed to attract the Russians with its tremendous political-psychological value, especially in relation to the low cost of the facilities provided.

The idea of the Salang Pass road originated with the business-financier group centering around the former Minister of National Economy, and the President of the Bank-e-Millie. The rationale was commercial: the only link between the newly expanded coal mines and the textile mills in the north and Kabul, the largest consumption center, was the tortuous 180-mile Shibar Pass road, subject to rock-fall in the Shikari gorge. The direct north-south short cut with modern alignment and grading eliminates 130 miles of road. It also provides an alternative for traffic while work on the longer road proceeds. After much investigation of the relative merits of over-the-top or tunnel routes, the Russians landed the contract in August 1957. All observers considered the proposed investment of \$19 million—which includes the rebuilding of the road between Charikar and Kabul—well worth while.

In committing themselves to the relatively large expenditure on the circular route to Herat and Kandahar, the Russians betrayed their strategic point of view which military observers in Kabul have come to confirm. Linking the open and flat plateau land surrounding the Helmand Valley with Russian rail network across only one major mountain range and four small rivers, the new concrete band would make it possible for any interested principal to move supplies and men direct to the Pakistan border—provided he has Afghan consent. The irony in this project lies in that it complements the U.S.-built road network radiating from Kandahar.

There remains the question as to whether Russian engineers can build

roads that will stand up for that price. No official was willing to doubt it, first because the Russians successfully built a similar road on their side of the Oxus and secondly because the Russians, having wangled the contract, will be on their mettle.

The Russians have chosen projects which serve several ends: accommodating Afghan wishes, providing short-run economic benefits, and displaying Russian engineering and operating ability. Thus far, they have shown no interest in long-term projects like reforming school curricula, preparing nomads for settlement, or modernizing vocational schools for ill-prepared pupils.

NOTES

1. Some observers believe that the plant was really too advanced in design for Afghan needs and thus serves as a show piece for Russian capabilities.

CHAPTER V

AFGHANISTAN BETWEEN EAST AND WEST: AN EVALUATION

FINANCIAL ASSISTANCE BY EAST AND WEST

AMOUNTS OF AID

Soviet news bulletins treat all trade transactions with Afghanistan—not just long-term credits—as part of the Soviet Bloc's "assistance". True, Soviet-Afghan trade does involve reciprocal benefits, so an expansion of trade has helped Afghanistan—as well as the Soviet Bloc. However, in this study "assistance" is considered limited to credits over and above bilateral trade. Only on this basis can Soviet Bloc financial aid be compared with that from the United States and, to a lesser extent, from Germany.

Table V-1 shows the amounts of credits and grants accepted by Afghanistan through mid-1959. Since on the Soviet Bloc side, technical assistance is inextricably combined with other types of aid, it is only fair to compare the authorized U.S. total of \$148 million with the approximately 65 percent higher Soviet total of \$246 million. However, the rate of total U.S. disbursements exceeds considerably those of the Soviet Bloc.

TABLE V-1

U.S., SOVIET, AND GERMAN FINANCIAL AID AUTHORIZED, 1950-59
(millions of dollars)

United States	
ICA development and special assistance	47.8
ICA technical cooperation	16.2
Wheat aid	25.8
Export-Import Bank loans	39.5
Asian Economic Development Fund (ICA)	19.0
	<hr/> 148.3
Germany—Commercial credits and investments (estimate)	5.0
Soviet Bloc aid	246.2

SOURCES: ICA, Kabul and Washington; also U.S. Department of State.
Figures as of June 30, 1959.

NOTE: The footnotes for this chapter will be found on page 83.

Until ICA engaged in development assistance, U.S. loans (from the Export-Import Bank) were concentrated on Helmand Valley land and water, that is, investments with long pay-out schedules, while Soviet loans were provided for several areas and several industries, on an average paying out in less than five years. Until late 1955 the two blocs complemented each other as far as the objects of aid were concerned. After December 1955 the roles of the two blocs were reversed. Several Soviet projects financed with the \$100 million credit promised results only after five years, especially irrigation works planned for the East. On the other hand, the new ICA projects, especially for trucks, airport, airplanes, and air management, are relatively quickly maturing investments. Similar to the earlier Soviet projects, they promise results in tangible form to be felt on a nation-wide scale. Still, as of mid-1959 no major manufacturing project had found favor with ICA officials. But, on the whole, the project types financed by U.S. and Soviet funds have become more competitive.¹

The U.S. wheat grants are not comparable with any other financial aid from either bloc. Soviet Bloc loans are usually made for imported capital goods and arms, and for consumer goods only if needed to generate currency. The wheat transfers have some developmental effect since the currency proceeds can be used by the Afghan government to cover the local cost of development projects. However, at the time of writing, little use had been made of those local funds which have been deposited; the Afghans have not really yet felt the double use of the U.S. wheat transfers.

The exchange savings derived from the U.S. wheat transfers, while not acknowledged as such, may be said to be significant. It is true that in the absence of U.S. wheat the government would probably have made a greater effort to collect domestic wheat and to restrict exports to Pakistan. But the fact that such exports are not effectively discouraged means that the exchange market is relieved *pro tanto* by the export proceeds therefrom. In this sense the wheat grants fulfill a double aid function, provided local currency deposits are accumulated and reinvested. However, Afghan handling of the wheat grant until 1959 suggests reservations, if not objections, to the accumulation of local currency in foreign hands.

THE BURDEN ON THE BORROWER

Principal and interest repayment obligations assumed by Afghanistan in connection with Soviet loans cover all services and goods delivered, whether inside or outside the Bloc countries, including technical assistance. Payments are demanded in future commodity shipments or convertible currency. Commodity shipments are subject to negotiation of price terms at the time of repayment and therefore carry a certain risk since they depend on the Afghans' eventual bargaining power. The transactions carry a gold clause which makes four rubles equal to one dollar (as long as the two currencies retain their present gold parities).

U.S. repayment obligations vary. The Export-Import Bank loans are repayable in dollars. However, the maturation terms, as already noted, have been generously extended. Repayments of ICA loans must also be made in dollars unless the government of Afghanistan either establishes a par value with the International Monetary Fund or comes to an agreement with ICA on an acceptable dollar-afghani exchange rate, in which cases the Afghan government may opt for repayment in afghanis and pay one percent more annual interest. Despite the substantial dollar repayment obligations, the U.S. loan and grant burden on the whole has been lighter than that of the Soviet Bloc loans. But Afghan officials do not view the repayments in this way. Philanthropic arrangements are taken at face value when they come from the UN and other clearly disinterested agencies. Despite the repeated requests for easing repayment terms, the Afghan government appears to view credits as part of a normal conduct of business in which each side receives a *quid pro quo* for what it gives. Loans smack less of political bribery, however generous the terms. There is little recognition of the fact that long-term loans may offer the lender, who wishes to take political advantage of it, an opportunity for establishing a foothold in the borrower's economy during the repayment period. Grants confine such opportunities to the period of disbursement.

Soviet interest rates have been consistently lower. However, if U.S. grants are included with loans, the effective interest burden of U.S. assistance is about the same as that on Soviet loans. Nonetheless, the Afghans have been sensitive to differences in the interest rates. The initial gap between American and Soviet rates would have been a serious deterrent, if Soviet loans of the amount requested of the United States in 1949 and 1953 had been available. Nor do Afghan officials view the low Soviet rate as a politically motivated subsidy. They compare the average Soviet Bloc rate with the 3 percent interest the Soviet State Bank pays on bonds. Their view of Soviet loans as strictly business arrangements is strengthened by their estimate of the loan's burden on the lender.

Since the second postponement of the repayment of the Export-Import Bank loans, the amortization period for the average U.S. loan dollar has been longer than for the average Soviet loan. However, in an informal reply to a 1958 query in Kabul as to what the Soviet government would do if the Afghan economy could not repay the 1956 \$100 million credit in the 30-year period after the first disbursement, a Soviet representative hinted that nobody would really care. Yet, lately, apparently in awareness of the cumulative magnitude of the burden of repayment, the Afghans have been stressing grants in their foreign aid requests.

BURDEN ON THE LENDERS

The Afghan view of foreign aid is influenced by what is known about the economic burden on the lender nations. On the one hand, the earlier high interest rates of U.S. loans and the allegedly high fees charged by M-K are viewed as unwarranted. Thus the United States is believed to make no real sacrifice in exporting capital goods on credit to Afghanistan. On the other

hand, since U.S. wheat is actually surplus, the Afghans regard its acceptance as scarcely a burden for the United States. They know that the foreign exchange saving which the wheat transfer implies is not the purpose of the U.S. surplus commodity program.

The transfer of capital goods from the Soviet countries is seen as a real sacrifice for it costs the Bloc the use of scarce investment capital until repayment is made. In the Afghan view, the difference in repayment provisions, particularly the current U.S. option of repayment in local currency, does not alter this contrast. It must be recalled, however, that thus far the Afghan government has had no opportunity to test the benefits of these more generous repayment conditions.

In the background looms the difference in income of the two aid-rendering blocs. There is no question of Afghan awareness that the Soviet Union economy is much less developed than the American. This fact favorably colors the response to Soviet aid—as if a difference of the marginal value of money income in the rich and poor societies were recognized.

In summary, as of mid-1959, dollar for dollar the West's loans and grants appear to have about the same net impact on the Afghan economy as those of the Soviet Bloc. On economic grounds the U.S. loans and grants involve a lesser burden for Afghanistan than the Soviet loans because U.S. technical assistance is free, and because not all of the repayment burden impinges upon Afghan foreign exchange resources. But on psychological grounds, some of the U.S. financial aid techniques carry a stigma for the Afghans which has its root in noneconomic considerations. Domestic ideological factors—the anti-capitalistic bias among certain government officials—and the proximity of a neighbor who demands neutrality in political as well as in financial relations have to be accepted as part of the coexistence of two streams of financial aid.

TECHNICAL ASSISTANCE BY EAST AND WEST

While ICA and UN technical missions operate independently and in advance of actual assistance programs, Soviet technical aid is part of a specific commitment—capital or arms—and training of Afghans by Soviet instructors is also strictly project-oriented. Dispatch of students or those offered fellowships to Soviet universities has not been the Afghan practice. Students are only being sent for training in specific practical tasks like operating a flour mill or bakery. Similarly Soviet technicians are assigned to narrowly defined jobs, returning when the job is finished. The nearest comparable activity on the Western side is the technical in-service training provided by M-K.

In contrast to UN and ICA programs, Soviet engineers and specialists have concentrated on industrial operations, power stations, and road-building. UN and ICA technical assistance is based on a different theory—namely, that Afghanistan's technological slack is so large that productivity generally can be lifted by merely applying superior knowledge and techniques without accompanying capital equipment in all instances. The most illuminating examples

are provided by UN's work in agriculture, especially in sugar-beet and cotton irrigation, and the United States' work in education.

The Soviet type of technical assistance has been easier to give, and to take, than the UN and ICA type. Its close association with new equipment and with a prospective operating project tends to have a greater appeal and to induce government agencies to a greater effort in obtaining counterpart personnel. UN and ICA agencies are always short of qualified Afghans to work with.

UN and ICA technical assistance costs the Afghans about \$200,000 a year. In the UN agreement the Afghan government pledged itself to supply local residential facilities, a local cost of living allowance, and transportation. Soviet technical aid, being related to the capital project, is paid for by the Afghans as part of the loan—including interest. The higher cost of Soviet assistance, however, may be offset by the ease and specificity of its application. But three factors are lost in such an approach to technical assistance. In the first place, if technical assistance is not part of a countrywide program which includes surveys of resources, comparison of relative priority of projects, etc., it suffers from the weakness of all project-by-project programs in having a greater danger of malinvestment and misdirected efforts. In the second place, the advantage of purely technological improvements, independent of capital investment, is lost sight of. In all underdeveloped countries there are scores of opportunities for raising the level of economic performance by merely applying advanced knowledge to existing tools and resources—in the use of water, seeds, improved animal breeds, etc. In the third place, technical assistance directly tied to projects tends to be biased in favor of the project. Just as M-K technicians never advised against a construction project to which they were assigned (resulting in some malinvestments from a technological point of view), so it is likely that Russian technicians will be advising on, and training Afghans for, certain projects like the new Kabul power station, without awareness of the weakness of this project in relation to other possible ones.

At the other extreme, the weakness of the UN and ICA type of technical assistance was too much of a disregard—at least initially—for the supplementary capital equipment needed to implement and spread technological advances. It established types of activity in which technological advice and training alone could do little to change the situation, primarily because the change entailed the building up of new resources or the use of fundamentally different techniques. Later ICA merged much of its technical assistance with development assistance.

There may well be room in Afghanistan for both types of technical assistance. There will be continuous need for pure technical guidance of the U.S. and UN kind through which applicable knowledge can be funneled to Afghan producers, educators, doctors, etc. Taking up the technological slack in such areas will take a decade at least. At the same time, because of the underdeveloped nature of many resource areas, structural changes in the allocation of resources will become desirable, as illustrated in the new power stations,

cement and textile mills. Here, technical aid will produce results only in conjunction with capital installations of the Soviet type.

On the other hand, the permanent socio-cultural impact and transfer value of Soviet technical assistance are limited—comparable again to M-K's early technical aid. As the company learned, a young Afghan may be quick to absorb one mechanical skill, like operating a power shovel, but if he is transferred to a dump truck or power scraper, he is helpless and has to be trained all over again. This means that changes in technology or use of the particular new equipment will require a new training program. Foreign teachers will be needed for a long time if the principles of engineering and physics are to be absorbed.

Thus the two kinds of assistance programs serve different needs and apparently both types of needs have to be met. This suggests a complementary, rather than competitive, relationship. The more effective the long-term Western type of program, the sooner can Soviet instruction be dispensed with and replaced by instruction from Afghan personnel.

AID AND AFGHANISTAN'S NEUTRALITY

Since 1956 the political objectives guiding the competing aid programs have had as much bearing on this competition as the economic aims. On the U.S. side there appeared to be no specific political objective until the spring of 1956 when ICA development assistance first became available for Afghanistan. Up to that time the extension of U.S. loans followed economic if not banking criteria. This is not to deny that the rescue of M-K's operation by means of the 1950 and 1954 loans did not carry some general political weight, such as the protection of prestige values. But the loans were not part of the Cold War strategy.

The rapid increase in Soviet aid and the emergence of a camp of neutralist powers prompted U.S. policy makers to aim at securing "maximum internal political stability, promoting friendly economic relations with her Free World neighbors and minimizing any possibility that Afghanistan might be either a victim of, or a pathway for, Soviet domination in South Asia."² At this point there emerged an important difference between this objective and that spelled out for Pakistan, namely, to strengthen Pakistan's pro-Western military defense posture. If the United States was to insure Afghan neutrality, this meant to keep Afghan assets, her people, her location, and her resources out of Communism's orbit.

Soviet political aims in Afghanistan do not seem very different from those of the United States. A policy of force or subversion has never been tried in Afghanistan. Instead there prevailed for a long time official indifference, if not hostility, towards the Afghan rulers who, according to orthodox Communism, are nothing but feudalist exploiters and/or tools of imperialism. However, since Stalin's death and the growing influence of the United States in Asia, Soviet policy has freed itself from the shackles of orthodoxy. Instead,

it has taken advantage of the newly emerging exploitable possibilities, such as the conflict between Afghanistan and Pakistan over the border Pathans and the slow progress of the U.S.-aided projects. The promising diplomatic harvest Russia hopes to reap includes: weakening the influence of the United States; disturbing the relations between Free World neighbors; and pushing Afghan policy into directions favorable to Soviet interests. Effective economic aid serves as one of the tools with which to reap it.

There is no reason to believe that Afghan leaders are not sincere in wishing to maintain a free and neutral course in foreign policy. Perhaps the recent official itineraries of the King and Prime Minister, respectively, best symbolize the orientation of that policy: Moscow-New Delhi-Washington, and Moscow-Washington-Peking. In clarifying its own relations with the great powers, the Afghan government repeatedly has defended neutralism as a means to further national objectives. Up until 1954 probably more material appeared critical of the USSR than of the West. Since then the government has stressed its friendly relationship with the USSR and the benefits it has derived from this relationship. But this has not involved the anti-Westernism characteristic of some other Afro-Asian countries, such as Egypt and Indonesia.

Nevertheless, the Cabinet is concerned about a situation in which acceptance of aid from one power for a specific project would compel it to accept a matching bid from the other. Irrespective of the competing credit lines offered, the government attempts to keep the amount of aid money actually at work at par. But political pressure forced upon, or possibly welcomed by, the government began by 1959 to upset Afghan economic neutrality, a condition that is rarely static, certainly not in the case of Afghanistan. It is rather the product of a number of pulls operating in divergent directions. A change in any one of them might tip the scales from neutrality to partnership with one side or the other.

INTERNAL PULLS TOWARDS THE SOVIET UNION

On the ideological plane there is a strong anti-private enterprise disposition among some influential Afghan officials. It is not pervasive or articulate and contains elements of statist and of socialist beliefs. A resentful attitude towards profiteering businessmen, foreign and domestic, is mixed with a desire for a better-planned economy and more control over the many divergent group interests. The ideological impact of Westernization played havoc with traditional beliefs without replacing them with a cohesive social philosophy or code of values. In part, the predilection may have been in response to some egalitarian elements in the traditional Islamic beliefs.

The political liberals, siding for the time being with the government, find in Soviet aid a welcome, if indirect, ally in their ideological struggle against what they consider obsolete and reactionary ideas nursed by the ruling and business groups. The exclusive financial support given to an individual contractor by U.S. Export-Import Bank loans antagonized Afghan liberals as well as businessmen. They received the impression, however false, that one of

the goals of U.S. government aid is to support American business firms when they are in need, regardless of the merits of the case. A curious ally of the reform-minded intellectual is the underpaid bureaucrat. Because of jealousy, an awareness of the needs of a poverty-stricken people, and some political opportunism, this group seems ready and eager to sell private enterprise short if this would satisfy their state-planning proclivities.

Both reformist groups are patently helped by the subtle strategy of the Soviet Embassy, which conspicuously refrains from doctrinal onslaughts on Islam and on corrupt bureaucracies. Thus a clash with deep-seated anti-materialistic principles embedded in Islam is avoided. Most Afghan officials queried on this issue are not aware of a possible strategy behind the apolitical Soviet approach, which seems content to strengthen the bureaucracy so as to drive private business to the wall and poison the atmosphere for private investments, thus making the country still more dependent on intergovernmental foreign aid.

On the constitutional and administrative planes a significant role is played by the desire for statist control and rule without being hampered by democratic processes. Soviet operating methods, without involving Communist technicians in Afghan political or monetary matters, show the nature of progress and planning administered from the top down. The urge to carry out plans quickly, even at the risk of inadequate preparation, is pervasive. Whether this is due to an inherently paternalistic attitude or the need to push economic development at all costs is hard to establish. But the observer frequently hears comparisons made between the speed with which the Soviet regime works and the slowness displayed by ICA or the UN. The Afghans note that in the Soviet Bloc trade, credit and technical assistance deals are made and carried out by tight-knit administrations which do not have to await congressional approval or suffer from interference by divergent private or local public interests. Afghans do not recognize the need to reconcile the conflicting technical or political interests which converge on a U.S. executive agency before final action on an aid project is taken.

Furthermore, there is the level of political opportunism. In the play of internal political forces, the role of Soviet aid is, on balance, helpful to the ruling group. Each element in this heterogeneous political leadership derives some support, however precarious, for its particular political goals. The dynastic element, in particular, finds in it a means of both accelerating economic development and building up the armed forces. These two drives support the ruling group's internal political position. U.S. aid has just recently begun to have a similar effect, but without military aid it will fall short of the political impact of Soviet aid. In addition, the regime's prestige is bolstered by spectacular contacts with foreign dignitaries, lavishly prepared receptions of visiting Afghan dignitaries abroad, even the smaller actions reflecting recognition of Afghanistan as an important international partner. The dealings of the Soviet Bloc are more astutely tailored to this end than are the comparable actions of the West. If this pull is combined with some tangible economic achievements emanating from the newly intensified friendship with the Soviet Bloc, so much the better for the political status of the ruling group.

There is, first, the fear of antagonizing influential conservative groups in the country: the business group, centering around Bank-e-Millie and the exporters; the *Mullahs* who see in the Soviet system a negation of what the Koran preaches and who recall the period of brutal oppression of the Turkdom and other Central Asian Muslims by the Soviet regime in the twenties. These groups are genuinely concerned over the lack of experience and skill of the present young leaders vis-à-vis the clever Russian strategists.

Second, there are the interests of the ruling family itself. While the King and his immediate entourage are generally intent on some form of progress, they prefer to carry it on conservatively by such measures as improving education and gradually promoting the emancipation of women, including public lifting of the veil (1959). But they are reluctant to give up those prerogatives which ensure their economic domination. Thus they have been unwilling or unable to initiate an effective planning program which would determine the selection of projects on the basis of their net economic effect on the country as a whole rather than their political and economic value for a small group. They certainly would also resist socialistic ideas in other domains which would broaden the Soviet influence.

Thus the political atmosphere within the government up to the highest echelons is governed by forces working both for and against the prevailing neutralist course. This was evident in the King's address at a dinner given in his honor in Moscow by the heads of the Bandung countries. The address contained this passage:

Despite their sufferings and privations during the last centuries, the peoples of Asia and Africa have proved to all the world that these two continents have remained seats of culture and history and that, despite their strength, the colonialists could not destroy the great spirit of Eastern solidarity. (Quoted from *News Bulletin* of the Soviet Embassy in Kabul, No. 142, July 22, 1957.)

These are phrases borrowed from the Soviet vocabulary and used by a King whose very existence would be destroyed if the forces pushing for closer liaison with the Soviets ultimately had their way.

The nuclei of opposition against the present course of government foreign policy are isolated from each other and have not formulated any clearly defined attitude or outlook on which they could be brought together. As long as the media of information and the rights of assembly and organization are controlled by the ruling group, there is little doubt that the regime is safe. Thus the internal forces that now seem to be leaning towards the Soviet Bloc have, for the time being, the upper hand. But the margin of strength is not wide and it can easily become narrower or disappear altogether, as is evident from the heterogeneous and instable nature of the pressures at work.

EXTERNAL FACTORS FAVORING THE SOVIET UNION

The regional issue of Pakhtunistan was a powerful factor in Afghanistan's recent orientation toward the USSR. The 1954 pact with Pakistan aroused the Afghan government and tribal leaders alike. In a rare move, the Afghan Loe Jirga (the national tribal assembly which normally meets only on issues of peace and war) recommended to the government in November 1955 that it find means to reestablish the balance of power which was upset by the U.S. arms aid to Pakistan. Thus the direction of American foreign policy in regard to Afghanistan and its neighbors has inevitably, if not intentionally, contributed to this pro-Soviet orientation. American bilateral commitments to Pakistan in the spring of 1959 further disturbed the Afghan Prime Minister and led him to warn once more of the danger to balance and peace created by these arrangements. Regardless of whether the Afghans had refused formally to join a Western defense system or whether the United States considered a military commitment too costly for the Free World, the United States had pushed the West's defense alliances eastward enough to include Afghanistan's neighbors to the west and to the southeast. As long as U.S. policy clearly reserved the full measure of its support for Afghanistan's neighbors, Afghanistan could, at best, risk only neutrality vis-à-vis the USSR. Thus the U.S.-supported air bases and weapons in Pakistan probably conditioned the Afghans to accept the lavish supply of arms tendered by the Soviet Union.

In contrast to the United States, the Soviet Union had been actively seeking Afghanistan's alignment with the Soviet Bloc since 1953. It not only championed the Afghan claim of self-determination for the Pakhtun tribes in Pakistan, but it offered generous transit facilities and a resumption of cultural contacts and exchange of persons which had virtually ceased since Amanullah's deposition in 1929. The attraction for Afghanistan of a politically powerful partner to support the Afghan position in international organizations was bound to be very strong. For instance, at the 1958 Geneva Conference on the Law of the Sea the transit issue came again to the fore. Fourteen nations, including Afghanistan, joined the Soviet Union in sponsoring a resolution which demanded for coastless countries an absolute right across coastal states, including free access to ports. The United States opposed the resolution and it was defeated.

EXTERNAL FACTORS FAVORING THE WEST

On the positive side the principal factors pulling Afghanistan to the West are respect for Western economic superiority, the general affinity among leading Afghans for the West's system of basic values, and a fear of Russia's ultimate aims. The Soviet Bloc is poor by Western standards. This limits the quantity, variety and, not infrequently, the quality of what it can deliver in competition with Western industrial suppliers. In particular, American industrial might excites the Afghan imagination. For example, news of an American bridge-building team rebuilding a structure in ruins for generations electrifies the local population. Thus far, American technical achievements in Afghanistan have been of a high order.

The ideological affinity of leading Afghans with the West is a fundamental force in spite of the statist or vaguely expressed socialist leanings of some of them. The very concepts that underlie their arguments against "the West's misguided policies" have been absorbed from the West. They are steeped in the concepts of self-determination, human rights, and peaceful settlement of international disputes. In contrast, Soviet talk of transition to socialism, colonial enslavement, and Leninist policies of peaceful coexistence are alien to them. Most foreign office officials speak English, French, or German; only a few speak Russian.

Even more important is the fear of the Soviet Union and its ultimate intentions, although the fear is rarely expressed openly. Implicit in the increased trade and aid is the assumption that these relations are between friendly neighbors. The margin of tolerance and the time-dimension are unknown quantities, but Afghan officials count on the people's "love of independence" if the government should find itself in too tight a squeeze. The announcement of each new economic link is accompanied by assurance that no political strings are attached, or by deeds and gestures favorable to the West. The fear of satellitism remains. In a regime in which foreign policy is made by a small but powerful group of educated leaders, supported by carefully selected intellectuals occupying senior government positions, the international political ramifications are for the moment considered less relevant than the tangible gain in economic resources and the military strengthening of the regime.

CAN AFGHAN INDEPENDENCE BE MAINTAINED?

There is no doubt that Afghan leaders hold sincerely to the view that regardless of the amount of military and economic aid they accept from the Soviet side, they can steer an independent course in foreign policy—at least as independent as before 1953. But can this be taken for granted? By accepting ever-growing commitments on the part of the Soviet Union have they not invited a lion to walk their streets?

A great deal will depend on the direction which the Cold War on the global scale takes. This is clearly beyond Afghan control. Certainly Afghanistan has taken no hostile action against the United States. Rather, it has continued to permit the operations of the United States Information Service (USIS) and even of private American philanthropic organizations. The Afghan government would probably support U.S. proposals for settling fundamental issues with the USSR. Direct American approaches like those used during Prime Minister Daoud's U.S. visit in 1958 and President Eisenhower's visit to Kabul in 1959 may enlist Afghan support, while at the same time giving recognition to Afghanistan's importance on the international chessboard. Nothing could be more welcome to Afghan leaders than an era of economic coexistence in which the causes for political and military conflict are removed by settlement. The Afghans would be released from the necessity of making political decisions every time they ask for a loan repayment deferment or a new road link. Neutralism would lose its present unpleasant stigma.

On the other hand, even given a continuation of cold-war tensions, avoidance of extreme emergencies—for example, a critical interruption in delivery of supplies—should prevent the Soviet military and greater economic aid from being accorded a decisive advantage. Afghanistan, for the time being, will attempt to steer a neutral course, playing one power off against the other in business and peaceful politics. As a new and novel source of capital, technical aid, and arms, the USSR is likely also to earn political goodwill. But the extent to which further economic penetration increases political subservience depends as much on Western economic and political policy as on the Russian moves.

POLICY ALTERNATIVES FOR THE WEST

Serious doubt has arisen about the continuation of the West's economic program in Afghanistan as a wasteful use of precious resources. Other criticisms suggest that if the West is to hang on effectively it must change the character of the program. The answers to these criticisms depend, first, on the relation between the Western program and that of the Soviet Bloc and, second, on the policy alternatives available to the West, given the institutional arrangements in which Western governments and entrepreneurs have to work.

ECONOMIC RIVALRY OR COMPETITION?

Our survey of competitive coexistence within the field of trade and aid in Afghanistan points to opportunities that go beyond mere competition and to a measure of complementarity between Soviet and Western projects. Only a few facets of the aid programs are truly competitive in the sense that they tax the same Afghan resources or offer exactly the same advantages, leaving room for only one party to the exclusion of the other. In technical assistance, trade, and certain phases of long-term financial aid, the relationship is predominantly complementary as far as the filling of needs is concerned. The programs are competing in a political rather than an economic sense. Both are trying to secure the political patronage of the same buyer.

The present bi-polar pattern of trade (barter with the USSR and multilateral elsewhere) and its composition are sufficiently complementary to lead to a reasonably high degree of resource utilization. Products unwanted in the West receive a promising welcome in the Soviet Bloc, even though they are inferior in quality to Western products. The West is still a good customer for the one Afghan product the Soviet markets do not take—*karakul* furs. The terms of trade, while somewhat under a cloud, seem to favor the Soviet Bloc in areas where there is competition or potential competition. The Afghans are not unaware of the catches to Russian aid through trade. At the same time, they are benefiting from the administrative expediency that accompanies centralized buying and selling. The dangers of trading with the Bloc are considered as small compared with the defects and obstacles seen in intensified trade with the Western countries—except perhaps Germany. If any improvement is

possible, the Afghans expect the initiative for a more flexible commercial credit policy or more advantageous terms of trade to come from the West—just as it did in the matter of transit facilities across Pakistan.

There will continue to be room in Afghanistan for both types of technical assistance—the usual Russian kind tied to capital installations, and the prevailing Western kind exemplified by long-term U.S. programs in agriculture and education. The two kinds of assistance serve different needs and apparently both types of needs must be met. This, too, suggests some complementarity. Perhaps with time the more effective the long-term educational type of Western program, the less reliance need be placed on the Soviet type of on-the-job training.

In the matter of financial aid, Soviet and Western loans have become more similar and more competitive. Currently there is no substantial balance of advantage between the terms of the Soviet Bloc and U.S. loans—even if allowance is made for U.S. grants and the local currency repayment option. On economic grounds Afghanistan will want to continue to accept loans and grants from either side until the capacity to absorb or repay appears exhausted by the creditor. Accordingly, there is rivalry in the field of financial aid. The country from which Afghanistan accepts more credit will tend to be the one willing to supply more technical aid or easier repayment terms. There seems every indication that both sides are trying to meet these two conditions for increased financial aid.

If all Western aid were competitive with Soviet Bloc aid on the economic plane, Western matching of each Soviet aid project would indeed lead to sterile and undignified situations. The West could thereby easily be drawn into doubtful challenges and tempted into ill-advised investments, overcommitting the Afghan economy and thereby jeopardizing the very objective of economic cooperation. In contrast, a complementary or autonomous aid and trade policy on the part of the West rather than one of response to Soviet initiatives would help fill the gap that exists between Afghan and Soviet programs. A rational and consistent approach could single out the areas in which Western, particularly U.S. and German, aid could be effective. The UN Technical Assistance Board, on which the Soviet Union is now represented, could suggest the sectors. It would seem, therefore, that within the framework of economic complementarity the West might succeed in making its economic program effective and politically competitive.

WHAT GAIN IN COMPLEMENTING THE SOVIET BLOC?

There are distinct dangers in too much complementarity. In the first place, as the Soviet Bloc program grows, and given the relatively limited areas in which projects are feasible, the probability of the West directly helping a Bloc project increases. For example, the new roads and installations built with U.S. help in the southwestern desert will directly benefit the new circular route the Soviets decided to build linking the southwest with the west and northwest. Furthermore, it will provide the proposed Soviet airport in the

Helmand Valley with the basic facilities on which logistics depend. Future projects might unforeseeably do more of the same. Thus, instead of weakening the Soviet influence and deflecting Afghan policy from a pro-Soviet orientation, U.S. and other Western programs might do the opposite.

In the second place, as projects in a small country dovetail into each other, their separate impact on the Afghan economy would soon be no longer identified with the donor or aiding nation. Thus economic aid projects might lose all political or psychological value from the aiding country's point of view. The measure of "friendship" and "help" extended to Afghanistan would be confined to the amount of aid. Given the limitations on U.S. and UN budgets for foreign economic aid, this yardstick might conceivably put the Western aid programs in an unfavorable light.

This line of argument is to some extent offset by the fact that complementarity is a two-way street. Russian projects may also complement Western ones—as was the case with the grain silo which made possible U.S. surplus wheat grants. Nevertheless, the country with the larger and more flexible aid program, the Soviet Union, can take better advantage of the complementarity of aid projects of lesser powers.

However valid the criticisms of complementary aid programs, they overlook the demerits of the alternative. Withdrawal would entail much greater political and psychological losses than those inherent in complementarity. At this juncture the stigma of "abandonment" would ruin all prestige and values created over ten years of foreign aid. The modest decline in M-K expenditures and staff in 1948/49 was enough to make the Moscow radio rejoice over the U.S. debacle it prophesied. Moreover, withdrawal would eliminate all the leverage the West now has in Afghanistan's economic program and would make the investments made thus far even more useful to the Soviet projects. American projects would undoubtedly be operated as part of the Soviet program. If, then, it may be safely assumed that for overriding political and economic considerations the West will stay in Afghanistan as long as political circumstances permit, what is the most effective way in which to operate? In the face of the monumental programs conceived by Soviet planners, it is conceivable that the West could gain by simply outdoing the Bloc. The installation of drinking water and sewerage systems for Kabul would constitute one giant project that has been seriously suggested by the Afghans. A railroad link between Kandahar and Kabul is another. Leaving aside the question as to whether such tremendous outlays would be authorized by Western parliaments, what would the effect in Afghanistan be?

Not only would a false image of the West's investment philosophy be created, but also such investments would overtax scarce Afghan resources. Afghan businessmen and prudent Finance Ministry officials expect the West to follow those sound investment criteria which would indicate the most efficient way of allocating resources. Where social benefits exceed private returns (as in a drinking water system) or could not be borne by the consumer, the social cost and benefits calculus must take the place of the private investment criteria. It is precisely here that the West's method of determining the most

productive use of resources can point up wastes created by monumental investments and thus win out over the Soviet aid program—not through size, but through economic efficiency. Nevertheless there are a number of important changes the West might well consider as prerequisites for further successful work in Afghanistan.

ENLISTMENT OF WESTERN PRIVATE ENTERPRISE

In all three areas—trade, technical, and financial aid—a greater effort could be made to enlist the services of private enterprise. In the area of trade this might involve the extension of short-term credits, either by private banks or by the U.S. Export-Import Bank, to private Western traders, thus permitting Afghan traders to stagger payments. There are untapped opportunities for private Western investors who could try to find responsive partners among Afghanistan's eager businessmen. In technical aid even more effort might be made to encourage the participation of private groups and organizations—by trying to tip the scales (or at least prevent their tipping the opposite way) through people-to-people contacts.

In the area of financial aid, truly competitive bidding for capital projects might be encouraged—with American and non-American firms invited to bid, whatever the source of the financial aid. Only in this way can the money be most profitably spent and, even more important, Afghan distrust of entrenched private Western interests be eliminated.

ORIENTATION OF AID POLICY

Long-run commitments. The orderly development of modern systems of power, transportation, and basic industry must be combined with authority to commit lump sums for the construction period of earmarked projects. The exacting U.S. requirements that funds allotted for a given year must be obligated during that year, without assurance that further funds will be available for the project, is completely unsuited for Afghanistan. The Afghan government needs to be assured of a steady flow of capital for the financing of a development program whose magnitude must be known in advance, even if the specific projects have not yet been worked out in detail. Such commitments, possibly through the Development Loan Fund, would prevent U.S. aid from becoming a series of specific reactions to Soviet actions, unrelated to long-run requirements.

Quickly maturing projects. Long-run commitments do not necessarily mean commitments to undertake long-term projects. Economic aid, for political and economic reasons, ought to produce at least some tangible results in the shortest feasible time. Obviously many basic requirements can only be met by investments which cannot mature in less than ten years. But ICA has taken up a number of projects which ought to bring faster results. Future aid programs might continue to strike a balance, especially if they include small-scale industrial and power projects. Without the tangible short-term effects of

investments the self-sustaining momentum for further growth cannot be generated soon enough to provide additional resources. Above all, without short-term effects, the Afghan people would not appreciate the importance of U.S. aid and its political-psychological effect would be lost.

Private Afghan as well as government enterprise. The role of private Afghan business has been neglected in all U.S. programs. The UN was able, indirectly and unofficially, to help the sugar and silk operations in the north. Notwithstanding political obstacles, ICA might make a greater effort to help private industry and commercial farmers. In some respects, private entrepreneurs might be more efficient in the use of foreign aid. Moreover, Afghan private business still attracts the better-trained technicians and it has idle capital which has been currently discouraged by the lack of foreign exchange and the government's hostile policy. Since the 1957 dismissal of the Finance Minister, the atmosphere has been ripe for a bold approach. Fruit-canning, woolen textiles, and leather products constitute areas where needed help would be welcomed.

Improved assistance techniques. UN and ICA procedures for selecting projects involve long and painful negotiations with Afghan officials and semi-trained technicians, especially when the criteria of selection of the aid-giving agency change or the allocation of funds is shifted. Since projects must be approved by the Afghan government and UN or ICA headquarters, it may take a year to obligate funds allotted to Afghan programs. To an outsider this method of administration appears to require much unnecessary overhead expense, what with administrative staff, supply and accounting personnel, program evaluation, and progress units cluttering up the operation. As one Afghan put it, "Americans seem unable to operate without starting a local organization first." To avoid damaging delays, some streamlining is essential if the United States is to measure up to Soviet performance.

There is no Soviet equivalent of the U.S. or UN operating missions. Soviet Bloc trade agents handle trade, and Embassy attachés function in part as project analysts. Each project or loan, along with the technical assistance required, is negotiated separately with a Soviet Bloc country. In most cases the project is investigated and surveyed by engineers before the agreement is signed. The Soviet technique of handling projects is similar to a European firm's handling of a spot construction job—not to M-K's elaborate set-up designed for years of work on a combination of projects. The total bill is charged to the credit account previously agreed on, and from there on the matter rests with the two central banks. If the Export-Import Bank had continued to handle American financial aid, its administration would have been more nearly comparable to the Soviet pattern, provided it had to deal with a contractor engaged for one or two projects.

POOLING AND COORDINATION

The UN might be in the best position to encourage the Afghan government to set up one official channel for receiving foreign financial aid, whatever the

source. Under the present set-up the various ministries shop around for all they can get. This approach, competitive within the Afghan framework, can lead to duplication, overlapping, misspending, and rivalry among competing vested interests. The funneling of all aid through one body might encourage the complementary rather than the competitive nature of aid from East and West.

Long steps have been taken toward UN-U.S. cooperation in Afghan economic aid programs. But more might be done—perhaps even including the provision of American capital for UN-oriented and directed projects. The closest coordination will not only help Afghanistan's development but will promote an image of Free World efficiency. It would be helpful if U.S. economic programs were more closely related to German and Japanese programs to avoid the overlapping, intramural strain, and diffusion of the Afghan development effort, as in the past. Interlacing with the popular German program might be particularly worth while.

There is also an important political angle to the question of Western coordination in connection with Afghan affairs. Conflicts between Afghanistan and its Western-oriented neighbors cannot be disassociated from the West. Either the UN with American support or the United States with the other architects of the network of treaties surrounding Afghanistan must seek to prevent crises from developing. The Soviet Union will stay in the business of exploiting such disputes. The West's best defense is at least to keep the disputes from exploding if not to forge enduring amicable relations between Afghanistan and its fellow Muslim neighbors. This will be the surest way of avoiding the local and regional wars which could draw Afghanistan into the Soviet orbit.

NOTES

1. In the summer of 1959 it was reported that competition in this sense had reached the stage of competitive bidding for the same Afghan project, for example, a metal work and repair shop equipment. Despite Development Loan money availability, the Russians won.
2. *Mutual Security Act of 1958*, Hearings, Vol. II, p. 1707.

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